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ABSTRACT

This report examines some of the major issues that Congress is likely to confront in considering future use of student aid programs by proprietary school students. Chapter 1 presents an historical overview of proprietary school participation in Title IV student aid programs and Chapter 2 explores the current participation of proprietary school students in Title IV programs, looking at program and student participation data. Chapter 3 discusses the two major concerns relating to proprietary school participation in the Title IV programs: abusive practices and Guaranteed Student Loan defaults. Chapter 4 focuses on six broad issues: the access of vocational students to postsecondary education; the cost of a proprietary school education to the student and to the taxpayer; the use of Title IV as the major source of federal aid for job training; the protection of the student consumer; the integrity of student financial aid programs; and the use of student aid as a funding mechanism. The final chapter offers some concluding observations on the basic choices concerning proprietary school issues and student aid programs that are available to Congress. Two appendices provide information on the history of proprietary schools' involvement in Title IV, and the types of available aid under Title IV and eligibility requirements for the participation of schools and students. (LPT)

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# CRS Report for Congress

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## Proprietary Schools and Student Financial Aid Programs: Background and Policy Issues

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HE 024 585-1

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# PROPRIETARY SCHOOLS AND STUDENT FINANCIAL AID PROGRAMS: BACKGROUND AND POLICY ISSUES

## SUMMARY

During its reauthorization of the Higher Education Act (HEA), the 102d Congress may closely examine the participation of proprietary schools in student aid programs. Proprietary schools, which are privately-owned postsecondary institutions operated for a profit, usually provide short-term job training of less than 2 years. Relatively few grant degrees. Their students receive about $5 billion annually in Federal student aid awards authorized by title IV of the HEA. Student aid is the largest source of Federal assistance for job training.

Congressional interest in proprietary schools arises from several factors. One is that the proportion of student aid awarded to proprietary school students in recent years has increased dramatically. In 1980, proprietary school students borrowed about 6 percent of federally Guaranteed Student Loans (GSLs) and they now borrow about 34 percent. Proprietary school students receive almost a quarter of all Pell grants, a proportion that has nearly doubled since the early 1980s. The effects of this trend on the availability of financial aid to college and university students is a concern.

Two other factors also may influence a review of proprietary school participation in student aid programs. One is persistent allegations of fraudulent and abusive practices, particularly in recruiting needy students, that enable some proprietary schools to profiteer from student aid. Another is the GSL default rate of proprietary school students. This rate, approaching 40 percent, is almost double that of any other group of students. GSLs are the major source of student aid, and proprietary school students borrow a larger share of GSL annual volume than students from any other sector of postsecondary education.

The U.S. Department of Education (ED) and Congress have recently taken steps to control student aid abuses and defaults. Without additional changes in title IV, however, the heavy use of student aid programs by proprietary school students and the concomitant problems of program abuse and GSL defaults could continue. Federal budget constraints, however, could limit alternative policy choices.

Congress will confront important issues in considering future policy towards proprietary school participation in title IV programs. One is that limits on proprietary school eligibility could reduce the access of some students to postsecondary education. Another is that increasing the use of the Pell Grant program by proprietary school students could be diffusing such grant aid, decreasing amounts available to students attending colleges and universities. A third issue is the effects proprietary school student loan defaults are having on the stability of student aid programs. A final issue is whether title IV provides the most appropriate mechanism to support students attending proprietary schools, and whether some alternative way to deliver the same amount of Federal aid is feasible.

## PREFACE

This report is one of a series of studies the Congressional Research Service has made of proprietary schools. We undertook the series in response to congressional requests for information about the schools in light of the fraud and abuse with which some have been charged. The series focuses on issues likely to be important during the forthcoming reauthorization of the Higher Education Act, including the educational opportunities they offer some students and the increasing amounts of Federal student aid they receive.

A series of studies about proprietary schools covering:

- the schools and their students
- student aid
- regulation
- labor market outcomes

Proprietary schools are postsecondary vocational schools that are privately owned and operated for profit. They also are known as private career or private trade and business schools. Most proprietary school programs can be completed in 6 to 9 months, allowing students to obtain training without losing much time from work. While community colleges also offer short-term programs, as do some 4-year colleges, proprietary schools can be distinguished from most institutions of higher education by their consistent focus on vocational training. Colleges typically have academic programs leading toward degrees, even if they also have vocational programs. Relatively few proprietary schools award degrees.

Proprietary schools provide instruction in a wide variety of occupational subjects: business and secretarial skills, computers and information processing, marketing, travel and tourism, hotel management, culinary arts, cosmetology, health services, electronics, automotive maintenance and repair, truck driving, security guards, building maintenance, and many others. In several fields the proprietary school sector is a major provider of pre-employment training. Nonetheless, most postsecondary vocational education occurs in colleges and universities, and much occupational learning occurs on the job.

Currently, there are over 6,000 proprietary schools and branches in the United States--more than all the colleges and universities. Most proprietary schools are small, but those with classroom instruction enroll well over one million students every year. Proprietary correspondence schools enroll about one-half as many. While the actual number of proprietary school students is difficult to determine from Federal surveys, they probably constitute between 9 and 12 percent of all undergraduate enrollment in a given year. Compared to colleges, proprietary schools are likely to have higher proportions of students who are minority, female, lower income, or without a high school diploma. Student bodies in individual schools differ substantially, though, and most postsecondary students with any of these characteristics are enrolled in

colleges. For additional information, see *Proprietary Schools: A Description of Institutions and Students*, by Richard N. Apling with Steven R. Aleman.

Federal financial aid to proprietary school students is controversial. One reason is the significant increase during the 1980s in their use of subsidized loans and grants. Proprietary school students now receive about one-third of Guaranteed Student Loans (GSLs) and one-quarter of Pell grants. Some people contend that this increase could result in less aid being available for college students. Their concern is magnified by two associated problems: proprietary school students' 40 percent GSL default rate--twice the rate of community college students and 4 times that of students from 4-year schools--and persistent allegations of fraud and abuse in the way a number of proprietary schools administer the aid programs. It is argued, however, that changes in Federal policies to address these problems could restrict postsecondary educational opportunities for some students. These and other issues related to the future of student aid for proprietary school students are analyzed in *Proprietary Schools and Student Financial Aid Programs: Background and Policy Issues*, by Charlotte Fraas.

The way proprietary schools are regulated has come under scrutiny. Currently the schools are subject to a three-part regulatory structure known as the "triad": private accreditation, State licensing, and Federal eligibility and certification. But frequent allegations of abuses by some schools show the limitations of these systems. Accrediting associations help schools raise standards through voluntary evaluation; created and controlled by the schools themselves, they have limited enforcement powers. Licensing requirements vary widely among States and may not address program quality. Eligibility and certification requirements for Department of Education student aid programs are neither adequate nor properly enforced, according to Inspector General reports. Proprietary schools are also subject to market forces to the extent they must compete for students. Yet if students are not knowledgeable consumers, as sometimes seems the case, the marketplace may not offer much protection. *Proprietary Schools: The Regulatory Structure*, CRS Report for Congress No. 90-424 EPW, by Margot Schenet, provides an analysis of these issues.

How proprietary schools affect the subsequent work and earnings of their students is not an easy question to answer. Little research has been done on the subject. Moreover, the question must be approached in different ways depending on the policy issue. Knowing how much proprietary school students subsequently earn, for example, would be helpful for determining whether they can pay back student loans. Knowing what similar students earn after attending community college, or perhaps not going on to school at all, would help determine the relative effectiveness of proprietary schools. Knowing if the students' additional earnings exceed the cost of the schooling would be useful for determining whether proprietary school education is a good investment. Whatever the issue, it is important to take account of differences in ability and prior education and training. Current research cannot yield conclusive findings on these matters, though it does suggest ideas for how the training of students beyond high school might be improved. For further discussion, see *Labor Market Outcomes of Proprietary Schools*, by Tom Gabe, Steven R. Aleman, and Bob Lyke.

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# PROPRIETARY SCHOOLS AND STUDENT FINANCIAL AID PROGRAMS: BACKGROUND AND POLICY ISSUES

## CHAPTER 1
## INTRODUCTION

The 102d Congress may examine closely the participation of proprietary schools in student aid programs authorized by title IV of the Higher Education Act (HEA).[1] These programs, which generally expire in FY 1991,[2] provide nearly $5 billion in grants and loans to proprietary school students. Title IV is the largest source of Federal assistance for job training.

Congressional interest in proprietary schools arises from several factors. One is that the proportion of student aid awarded to proprietary school students in recent years has increased dramatically, which raises concerns about the availability of such aid for college and university students. Another factor is persistent allegations of fraudulent and abusive practices by some proprietary schools to profiteer from the aid their students receive. A further disturbing factor is the default rate of proprietary school students on Guaranteed Student Loans (GSLs) of nearly 40 percent--almost double that of students attending any other type of institution--and the high use of this aid program by such students.

This paper analyzes some of the major issues that Congress is likely to confront in considering the future use of student aid programs by proprietary school students. These issues include:

- the access of vocational students to postsecondary education
- the cost of a proprietary school education to the student and to the taxpayer
- the use of title IV as the major source of Federal aid for job training

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[1]20 U.S.C. 1070 *et seq.*

[2]Authority for the Guaranteed Student Loan program expires at the end of FY 1992. The authority for appropriations for Pell grants and the campus-based programs expires in 1991. These latter programs will continue to operate, however, through FY 1992 because they are forward funded. This means that the appropriation for a given fiscal year is available for expenditure the following fiscal year.

- the protection of the student consumer
- the integrity of student financial aid programs
- the use of student aid as a funding mechanism

These issues, discussed in chapter 4, may affect whether the current structure providing student aid for proprietary school students will be significantly changed. Another paper in the series, *Proprietary Schools: The Regulatory Structure*, addresses issues specific to existing title IV program policy, such as program quality, institutional stability, and consumer protection.

The history of proprietary school participation in title IV student aid programs has been marked by expanded eligibility for program benefits and, to a marginal degree, differential treatment from that afforded other postsecondary institutions.[3] Some in Congress appeared uneasy about the participation of proprietary schools in student aid programs, despite their goal of enabling all eligible students to have access to the postsecondary education of their choice, regardless of the institution providing it. Student aid program abuses at proprietary schools reported since the post-World War II GI Bill contributed to their concerns.

The Higher Education Act of 1965,[4] which first established broad-based student aid programs, excluded proprietary schools and other short-term vocational schools from program participation. As an alternative, Congress established the National Vocational Student Loan Insurance program, which was substantially similar to the GSL program that the HEA created for college students. In 1968, program amendments merged the vocational student loan program with the GSL program, primarily for efficiency. Also under 1968 amendments proprietary schools became eligible for participation in the National Defense Student Loan program[5] and the College Work Study (CWS) program.

Proprietary school students have been eligible for all title IV student aid since 1972 under varying conditions. For example, between 1972 and 1980, their eligibility for most of the aid programs was conditioned on their school having an agreement with the U.S. Commissioner of Education that the aid would not result in an increase in student tuition and fees. Before 1986, CWS-aided proprietary school students could not be employed by their schools; they now may be under certain conditions.

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[3]For a detailed discussion of the history of proprietary school involvement in title IV programs see appendix A.

[4]P.L. 89-329, Nov. 8, 1965.

[5]Later renamed the National Direct Student Loan (NDSL) program and now called the Perkins Loan program.

Two major developments in the evolution of student aid policy have affected the current status of proprietary schools in title IV programs: the increasing importance of financial need in determining aid eligibility and the shift from grants to loans as the dominant type of aid. In recent years, eligibility for all student aid programs increasingly has been based on the financial need of the student. This has resulted in many proprietary school students becoming eligible for aid since a large proportion of such students are low-income. It has also resulted in larger awards for proprietary school students than many others because these students have relatively high educational costs and little nonfederal aid is available to them. During this period that aid was directed to students with the greatest financial need, proprietary school enrollments increased significantly, probably at a higher rate than enrollments at colleges and universities.[6]

Today about 27 percent of title IV funds is awarded to proprietary school students, primarily under the GSL and Pell grant programs. Over a third of GSL borrowers are proprietary school students, representing the highest proportion of borrowers from any single sector. About a quarter of Pell grant recipients are proprietary school students, a proportion that has nearly doubled in the last decade. Title IV aid constitutes the primary source of Federal or State spending for proprietary school education and is an important source of school revenues.[7]

The shift from grants to loans as the predominant type of aid has intensified concerns over the relatively high use of title IV programs by proprietary school students. According to Federal program data calculated by the College Board, in the mid-1970s about 76 percent of Federal student aid was awarded in **grants**; in the 1987-1988 academic year, about 67 percent of Federal student aid was awarded in **loans**.[8] This presents a problem because

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[6]U.S. Library of Congress. Congressional Research Service. *Proprietary Schools: A Description of Institutions and Students*. CRS Report for Congress, by Richard N. Apling with Steven R. Aleman. Washington, Aug. 31, 1990. p. 21-22.

[7]By one conservative estimate, Federal student aid programs constitute an average of 44 percent of all proprietary school revenues. U.S. Department of Education. National Assessment of Vocational Education. *Final Report Volume IV: Postsecondary Vocational Education*. Washington, 1989. p. 81. Student aid reportedly accounts for as high as 90 percent of revenues at some schools. U.S. Congress. Senate. Committee on Labor and Human Resources. Subcommittee on Education, Arts and Humanities. *Problems of Default in the Guaranteed Student Loan Program*. Hearings, 100th Congress, 1st Sess., Dec. 11 and 18, 1987. Washington, GPO, 1987. p. 78. (Hereafter cited as Senate Committee on Labor and Human Resources, *Problems of Default*)

[8]Unpublished data calculated by Ms. Tanya Sharon of the Washington Office of the College Board. In the 1975-1976 academic year, 76 percent of all Federal student aid was available in grants, 20 percent in loans, and 3 percent in work study assistance (percentages are rounded). In the 1987-1988 academic year, 29 percent of aid was available in grants, 67 percent in loans, and 3 percent in work study assistance. Grants include Pell grants, Supplemental Educational Opportunity Grants (SEOGs), State Student Incentive Grants, social

(continued...)

proprietary school students default at a considerably higher rate than students attending other types of postsecondary institutions.[9]

An issue is whether there is a connection between title IV program abuses by proprietary schools and student loan defaults: do practices by some proprietary schools to profiteer through student aid programs--enrolling aided students without providing adequate educational services--create conditions that lead to loan defaults? Former Secretary of Education William Bennett concluded that they do in a 1987 Senate hearing,[10] and proposed an administrative policy to terminate schools with high default rates, most of which were proprietary schools, from student aid program participation. To some extent Congress and the current Administration have accepted that a connection exists. Under existing legislative and administrative policies, high default rates have become a proxy measure for a "problem" school.[11]

Although proprietary school supporters acknowledge that there are a limited number of "bad apples" among the schools, they contend that student loan defaults result from the type of students the schools serve, not school practices. Their enrollments include high proportions of low-income and minority students with low academic ability, many of whom live in urban areas. Students with these characteristics are more likely to default. Supporters of proprietary school education say that these "high risk" students, who have significant training needs, would not be served by other postsecondary institutions. They warn that since proprietary schools lack other sources of public support, they could continue to enroll low-income students only if Federal student aid remains available.

Chapter 2 of this report explores the current participation of proprietary school students in title IV programs. It examines the use of aid programs by these students, looking at participation data from the title IV perspective (the

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[8](...continued)
security educational benefits, veterans' programs, and other miscellaneous Federal student grants. Loans include GSL program loans of all types, NDSLs, Income Contingent Loans, and other miscellaneous student loans.

[9]A U.S. Department of Education study of FY 1983 borrowers showed 37 percent of proprietary school borrowers had defaulted versus about 10 percent of borrowers at 4-year institutions. U.S. Department of Education. *FY 1988 Guaranteed Student Loan Programs Data Book*. Washington, 1989. p. 57.

[10]Senate Committee on Labor and Human Resources, *Problems of Default*, p. 80-81.

[11]Sanctions against participating institutions with high default rates are the cornerstone of the Department's default control policy as embodied in regulations issued in June of 1989. See, *Federal Register*, v. 54, June 5, 1989. p. 24114-24127. The Student Loan Reconciliation Amendments, which were adopted in 1989 budget reconciliation legislation, P.L. 101-239, prohibit undergraduate students at high-default schools from participating in the Supplemental Loans for Students (SLS) program, which is part of the GSL program. For further information on these measures see chapter 3.

amount of program funds awarded to proprietary school students) and the student perspective (the use of aid programs by proprietary school students).

Chapter 3 discusses the two major concerns relating to proprietary school participation in title IV programs, abusive practices and GSL defaults. Recently there has been considerable attention to these problems by the Department of Education (ED) and Congress as well as the proprietary school industry itself.

Chapter 4 focuses on the six broad issues identified above regarding the future title IV policies towards the proprietary schools.

Chapter 5 offers some concluding observations. Appendix A provides detailed information on the history of proprietary school involvement in title IV. Appendix B describes the types of aid available under title IV and eligibility requirements for the participation of schools and students.

# CHAPTER 2
# PARTICIPATION OF PROPRIETARY SCHOOL STUDENTS IN TITLE IV PROGRAMS

- **Nearly $5 billion in title IV aid is awarded annually to proprietary school students.**
- **More proprietary school students borrow under the GSL program than students from any other postsecondary sector.**
- **A third of GSLs and nearly a quarter of Pell grants are awarded to proprietary school students.**
- **Seventy-nine percent of proprietary school students participate in title IV programs compared to 29 percent of nonproprietary school undergraduates.**

Students attending proprietary schools have been eligible to receive assistance under all of the student aid programs authorized by title IV of the HEA since 1972. The primary purposes for including proprietary schools in Federal student assistance programs have been: to provide aid on an equitable basis to the student seeking a nonbaccalaureate postsecondary education or training program and the student choosing to attend college; and to support job training and retraining that is considered critical to the economic health of the Nation.[12]

Proprietary school students are major beneficiaries of title IV aid, primarily as recipients of GSLs and Pell grants.[13] This section of the report reviews data on proprietary school student participation in the aid programs from two perspectives: the proportion of title IV program awards to proprietary school students; and the proportion of proprietary school students who receive title IV aid.

## PROGRAM DATA ON PROPRIETARY SCHOOL STUDENT AWARDS

Program data collected by ED indicate that proprietary school students borrow a third of all GSL loan principal, and receive about a quarter of Pell grant funds. Proprietary school students receive only about 6 percent of campus-based program (Perkins Loans, SEOGs, CWS) funds. Overall, roughly

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[12]See, for example, U.S. Congress. House. Committee on Education and Labor. *National Vocational Student Loan Insurance Act of 1965*. Report to Accompany H.R. 7743. House Report No. 308, 89th Cong., 1st Sess. Washington, GPO, 1965. p. 2. U.S. Congress. Senate. Committee on Labor and Public Welfare. *Education Amendments of 1971*. Report to Accompany S. 659. Senate Report No. 92-346. Washington, GPO, 1971. p. 51.

[13]Appendix B describes the characteristics of the title IV student aid programs.

27 percent of student aid authorized by title IV is awarded to proprietary school students.[14]

**The Guaranteed Student Loan Program**

The use of the GSL program by proprietary school students is of particular interest because such loans constitute a large proportion of student aid awards under title IV, and proprietary school students make up a large proportion of borrowers and default at a higher rate than students attending other types of institutions. There are three types of GSLs: Stafford loans, which are for needy students and are subsidized; Supplemental Loans for Students, or SLS loans, which are unsubsidized and available at a variable interest rate to independent students; and PLUS loans, which are also unsubsidized and available at variable interest rates but to parents of dependent undergraduate students. Stafford loan volume is expected to be about $8.8 billion in FY 1990, compared to about $1.4 billion for SLS loans and $827 million for PLUS loans.

Several recent studies have analyzed the use of GSLs by sector and by program. ED researchers conducted analyses using a random sample of borrowers from the Department's guaranty agency "tape dump"[15] to determine the percentage distribution of GSL borrowers and the dollar value of their loans by institutional sector. Data for all types of loans--Stafford, PLUS, and SLS--whose beginning period was in FY 1988 indicate that proprietary school students borrowed 34 percent of all GSL dollars, or a total of $3.6 billion. Over 39 percent of borrowers under all the GSL programs attended proprietary schools. These data showed that there was more GSL borrowing by proprietary school students than by students from any of the other sectors considered--public 4-year, private nonprofit 4-year, public 2-year, and private nonprofit 2-year schools.[16]

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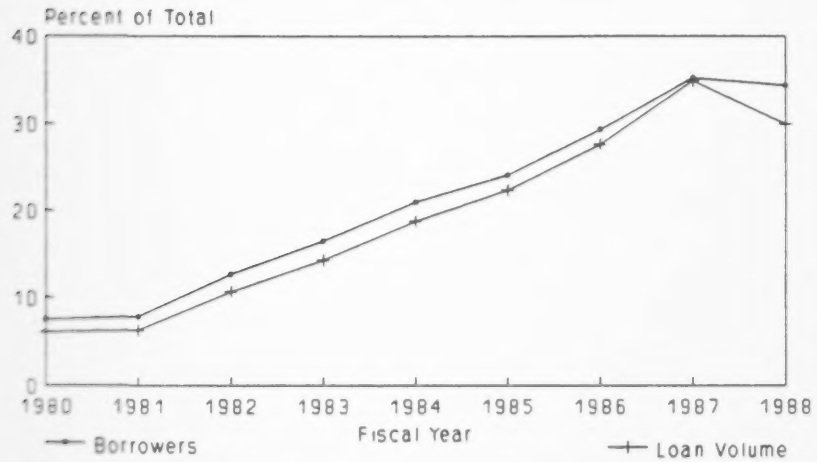
[14]This percent is based on Pell and GSL data for the 1988-1989 school year. Campus-based program data assumes the same proportion of proprietary school student aid funding as the previous school year of 5.8 percent. ED estimates total awards under all of these programs to be $17.7 billion for FY 1988.

[15]ED relies on guaranty agencies to report all GSL program borrowing annually with a number of variables concerning the loan and the characteristics of the borrowers. This data, known as the GSL "tape dump," has had problems with a lack of consistent quality and reliability of records. The volume of records makes it too unwieldy to be useful for analyses without sampling.

[16]These data were calculated by the Analysis Section, Guaranteed Student Loan Branch, Office of Postsecondary Education, U.S. Department of Education and reported to the Congressional Research Service (CRS) on Mar. 8, and May 1, 1990 by Ms. Blanca Rosa Rodriguez. They were also reported in a paper by Ms. Rodriguez and Mr. Gary Beanblossom presented at the NASSGP/NCHELP Research Network Conference in Washington, D.C., May 16-18, 1990.

The ED analysis also indicates a marked increase in the use of each loan program by proprietary school students since the early 1980s.[17] The following chart, showing data for Stafford loans only, shows steady increases through FY 1987 in the proportion of borrowers attending proprietary schools, and in the proportion of loan volume attributable to these borrowers.

**CHART 1.**
**Stafford Loan Borrowing Attributable to Proprietary School Students Since Fiscal Year 1980**




**Source**: *U.S. Department of Education. Office of Postsecondary Education. Guaranteed Student Loan Branch. Analysis Section. Data presented before the 7th Annual NASSGP/NCHELP Research Network Conference, May 17, 1990.*

ED analysts pointed to developments that may have influenced trends in GSL borrowing by proprietary schools students. Program amendments in the late 1970s encouraged lenders to market loans to proprietary school students for the first time, when previously loans to such students were considered too risky.[18] FY 1982 marked the first year that a financial need test was applied to loan applicants with adjusted gross incomes greater than $30,000; FY 1987 was the year that need was required to be established for **all** loan recipients.

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[17]The first year PLUS loans were available were 1981 and the first year SLS loans (before 1987 called "Auxiliary Loans to Assist Student," or ALAS loans) were available was 1982.

[18]Technical amendments in 1979 (P.L. 96-49) removed a ceiling on the "special allowance" interest subsidy the Federal Government paid lenders, making the loans generally more attractive to them. Lenders began to advertise for student loan customers, and proprietary schools were an untapped resource. Also, secondary markets grew in the early 1980s allowing lenders to sell their loans, encouraging them to make loans to students at higher risk of default, such as proprietary school students. Also, in the early 1980s, the Higher Education Assistance Foundation (HEAF), a national guaranty agency, began to market guarantees on proprietary school loans.

Proprietary school students tend to have low incomes, which means such need-based policies could shift eligibility to a larger proportion of such students. The 1988-1989 academic year was the first year the "congressional methodology," a new need analysis system for GSLs, was instituted as well as the first year that a new definition of "independent student" was applied to title IV programs. These factors may have resulted in the sizeable decline in the proportion of proprietary school student loan volume and the slight decline in borrowers in FY 1988.[19]

Under the SLS program there was a marked increase in proprietary school student participation in FY 1987 and FY 1988, from 8.2 percent of all borrowers in FY 1986 to 50.1 percent in FY 1987 and 61.5 percent in FY 1988. Proprietary school students had limited eligibility for such loans under the ALAS (Auxiliary Loans to Assist Students) program, which operated between 1982 and 1986 as a source of loans for independent students. The ALAS loan maximum for independent **undergraduate** students, including proprietary school students, was $2,500 *minus* the principal from any other GSL program loan the student received. Since the regular GSL program offered $2,500 subsidized loans at low interest rates, and there was no requirement that the student meet a need test if his or her income was below $30,000, this made it unlikely that lower income independent undergraduates, such as were often found at proprietary schools, would borrow under the ALAS program.

In 1987 program amendments creating the SLS program removed the limitation on borrowing by independent undergraduates and increased the loan maximum to $4,000. This had a dramatic effect on proprietary school student use of this loan program, as well as on the volume of loans borrowed. The General Accounting Office (GAO), in response to congressional concern over this trend, examined data from 9 of the 11 largest GSL guaranty agencies,[20] which accounted for over 90 percent of the SLS guarantees, by volume, in FY 1988.[21] The agency found that proprietary school students in short-term (less than 1 year) programs accounted for over 52 percent of all SLS dollars guaranteed by the 9 agencies during the 3-year period FY 1987-FY 1989. Overall, proprietary school loan volume constituted about 61

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[19]Presentation by Gary Beanblossom before the 7th annual NASSGP/NCHELP Research Network Conference, May 17, 1990.

[20]The nine agencies were the Higher Education Assistance Foundation (HEAF), United Student Aid Funds (USAF), California Student Aid Commission, Texas Guaranteed Student Loan Corporation, Nebraska Student Loan Program, Inc., Colorado Student Loan Program, Pennsylvania Higher Education Assistance Agency, Ohio Student Loan Commission, and Massachusetts Higher Education Assistance Corporation. The two agencies omitted from the study because of data limitations that were among the large SLS guarantors were the New York State Higher Education Services Corporation and the Great Lakes Higher Education Corporation.

[21]U.S. General Accounting Office. Fact Sheet for Congressional Requesters. *Supplemental Student Loans: Who Borrows and Who Defaults*. Washington, 1989. 24 p.

percent of all SLS borrowing. The greatest volume growth experienced in the program was in short term proprietary school student borrowing between FY 1987 and 1988 from $193.5 million to $778.4 million. The other major category of borrowers were nonfreshmen nonproprietary students, presumably many of whom are graduate students.[22]

With regard to increases in loan volume under SLS, in FY 1986, the volume for ALAS loans was about $279 million; in FY 1987, the first year of the SLS program, the volume increased to $826 million, and it jumped to over $2.02 billion by FY 1988. In FY 1989, volume levelled off at $2.1 billion.

Reconciliation legislation passed in December of 1989 amended the SLS program to reduce borrowing by undergraduate students--effectively proprietary students. ED data for the second quarter of FY 1990 (January through March 1990) indicate a 37 percent drop in SLS volume over the corresponding period in FY 1989.

**Pell Grants**

Annual Pell Grant program data reported by ED show that currently almost a quarter of Pell grant recipients attend proprietary schools, a proportion that has nearly doubled in the 1980s. They also indicate that proprietary school students receive more Pell grant aid than undergraduate students[23] in private non-profit institutions, but less than students attending public schools.

The most recent Pell grant data are for the 1988-1989 award year.[24] That year, 23 percent of Pell grant recipients, or 743,000 students, attended proprietary school programs. About 19 percent of Pell grant recipients attended private non-profit institutions and about 58 percent attended public institutions.

Most Pell grant recipients attending proprietary schools--96 percent--were in such schools whose longest program was shorter than 3 years. Three-quarters of these students were in schools whose longest program was less than 2 years.

The proportion (25 percent) and number (807,000) of total Pell grant recipients in **public** schools offering programs of less than 3 years, such as community colleges, were similar to those for **all** proprietary schools. About

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[22]Colleges and universities tend not to use the SLS program in their aid packages for undergraduate students.

[23]Pell grants are available to students in undergraduate programs only.

[24]U.S. Department of Education. *1988-1989 Pell Grant End of Year Report.* Washington, 1990. 123 p.

96 percent of the students attending these shorter term public schools, however, were in schools with maximum programs of **at least 2 years' duration.**

Pell grant expenditures for students attending proprietary institutions in 1988-1989 were about $1.1 billion dollars (24 percent) out of total Pell grant expenditures of $4.5 billion. Nearly $1.05 billion of these expenditures was for grants to proprietary school students in schools with maximum programs of less than 3 years. Expenditures for students attending public institutions with programs of similar length were about $942 million.

How do Pell grant expenditures for **all** proprietary schools compare to expenditures for students attending public or nonprofit private colleges and universities? Total expenditures for students attending public and nonprofit private institutions offering at least a baccalaureate degree as the maximum degree were about $2.3 billion, or half of all Pell grant expenditures. About 66 percent of these funds were awarded to students in the public schools.

The average Pell grant award to a proprietary school student in the 1988-1989 award year was $1,472, more than the average grant of $1,331 for a public school student but less than the average grant of $1,522 for a private nonprofit school student. The average grant for a public school student in a program of less than 3 years, typically a community college student, was $1,168. The average grant for students in the shorter term (most typical) proprietary schools ranged from $1,451 to $1,501.

Since the inception of the Pell Grant program there has been an obvious increase in the proportion of funding awarded to the proprietary sector, with increases most notable since FY 1980. ED analysts, in the following table, calculated the proportion of Pell grants students at various types of postsecondary institutions received since the first award year, 1973-1974. Since that year, the public and private 4-year schools' proportionate share of Pell grant recipients and funding showed the greatest decreases. Since FY 1980, the period when the share of proprietary school recipients and funding showed marked increases, the proportion of Pell grant *recipients* attending 4-year public schools declined by 6 percentage points, and the proportion of Pell grant *dollars* to students attending private 4-year schools declined 6.9 percentage points.

TABLE 1

# ANNUAL PELL GRANT RECIPIENTS BY TYPE OF INSTITUTION
# ACADEMIC YEARS 1973-74 – 1988-89

| | Number of Recipients (%) | | | | |
|---|---|---|---|---|---|
| Academic Year | Public 4 Yr | Private 4 Yr | Public 2 Yr | Private 2 Yr | Proprietary |
| 1973-74 | 41.1 | 22.2 | 24.8 | 4.0 | 7.9 |
| 1974-75 | 41.0 | 20.2 | 27.2 | 3.1 | 8.5 |
| 1975-76 | 38.4 | 17.5 | 31.8 | 2.9 | 9.4 |
| 1976-77 | 41.6 | 17.7 | 29.7 | 2.2 | 8.8 |
| 1977-78 | 42.0 | 17.8 | 29.4 | 2.0 | 8.8 |
| 1978-79 | 39.8 | 20.1 | 27.8 | 2.3 | 10.0 |
| 1979-80 | 40.3 | 21.5 | 26.1 | 2.4 | 9.7 |
| 1980-81 | 38.9 | 20.5 | 27.5 | 2.5 | 10.6 |
| 1981-82 | 37.5 | 20.0 | 27.8 | 2.4 | 12.3 |
| 1982-83 | 35.4 | 19.3 | 27.5 | 2.7 | 15.1 |
| 1983-84 | 34.2 | 17.9 | 27.9 | 2.6 | 17.4 |
| 1984-85 | 34.2 | 17.4 | 26.8 | 2.4 | 19.2 |
| 1985-86 | 33.4 | 16.9 | 26.0 | 2.4 | 21.3 |
| 1986-87 | 32.2 | 16.0 | 25.8 | 2.2 | 23.8 |
| 1987-88 | 31.7 | 15.7 | 24.9 | 2.2 | 25.5 |
| 1988-89 | 32.9 | 16.2 | 25.3 | 2.4 | 23.2 |

| | Dollar Amount of Grants (%) | | | | |
|---|---|---|---|---|---|
| Academic Year | Public 4 Yr | Private 4 Yr | Public 2 Yr | Private 2 Yr | Proprietary |
| 1973-74 | 41.4 | 22.4 | 25.1 | 4.0 | 7.1 |
| 1974-75 | 40.2 | 21.2 | 26.7 | 3.2 | 8.7 |
| 1975-76 | 39.4 | 22.1 | 26.4 | 3.0 | 9.1 |
| 1976-77 | 43.3 | 22.3 | 23.6 | 2.6 | 8.2 |
| 1977-78 | 43.1 | 21.0 | 24.5 | 2.4 | 9.0 |
| 1978-79 | 39.5 | 24.3 | 23.2 | 2.6 | 10.4 |
| 1979-80 | 39.9 | 25.5 | 21.5 | 2.8 | 10.3 |
| 1980-81 | 38.0 | 24.6 | 22.1 | 2.9 | 12.4 |
| 1981-82 | 37.9 | 23.4 | 21.9 | 2.7 | 14.1 |
| 1982-83 | 35.5 | 23.0 | 21.1 | 3.0 | 17.4 |
| 1983-84 | 35.0 | 21.0 | 21.3 | 2.8 | 19.9 |
| 1984-85 | 35.9 | 20.4 | 20.4 | 2.6 | 20.7 |
| 1985-86 | 35.3 | 19.2 | 20.6 | 2.5 | 22.4 |
| 1986-87 | 34.2 | 18.3 | 20.3 | 2.3 | 24.9 |
| 1987-88 | 33.3 | 17.7 | 20.0 | 2.4 | 26.6 |
| 1988-89 | 34.3 | 17.7 | 21.1 | 2.5 | 24.4 |

Source: Data were obtained from Pell End-of-Year Reports prepared by U.S. Department of Education, OPE/OSFA/DPPD, Pell Grant Branch, Analysis Section. Annual percentages by institution type were calculated on the entire universe of Pell Recipients for whom institution type data were available. The number of cases upon which percentages are based are as follows: 1973-74=182,710; 1974-75=572,631; 1975-76=1,215,271; 1976-77=1,922,874; 1977-78=1,846,080; 1978-79=1,830,141; 1979-80=2,517,970; 1980-81=2,707,932; 1981-82=2,708,722; 1982-83=2,522,238; 1983-84=2,758,339; 1984-85=2,745,462; 1985-86=2,813,224; 1986-87=2,659,200; 1987-88=2,881,547; 1988-89=3,198,286. Academic years are from July 1 through June 30.

Prepared by: U. S. Department of Education, OPE/OSFA/DPPD, Guaranteed Student Loan Branch, Analysis Section

The increase in the proportion of Pell grants awarded to proprietary school students could result from several factors. One is increases in the number of students attending proprietary schools: such students tend to be financially needy and qualify for Pell grants. Another is the Pell need analysis formula, which makes it easier for independent students to qualify for a Pell grant: proprietary school students are more likely to be independent than students attending 4-year schools.[25]

**Campus-Based Aid**

Proprietary school students receive relatively little Federal student aid under the title IV campus-based programs, in contrast to their significant share of Pell grants and GSLs. Data reported by the College Board show that only about 6 percent of campus-based aid was awarded to proprietary school students in academic year 1987-1988.[26]

The proportionate share of campus-based aid awarded to proprietary school students has not changed substantially since the early 1980s. These programs, however, all lost buying power over this time, and so the significance of campus-based assistance declined as a source of aid to proprietary school students.

## USE OF AID PROGRAMS BY PROPRIETARY SCHOOL STUDENTS

Another way to look at statistics on proprietary school students and student aid is from the student perspective. What proportion of students in proprietary schools is aided and what is the source of aid? How does this proportion compare to students in other postsecondary institutions? A recent source of such information is the National Postsecondary Student Aid Study, or NPSAS, which surveyed a sample of students enrolled in all types of postsecondary institutions for their use of student aid programs in the fall of 1986.

Table 2 shows the results of a CRS analysis of NPSAS data, which compares the proportion of proprietary school students receiving some type of student aid with the corresponding proportion of nonproprietary undergraduate students.[27] These data indicate that the share of proprietary school students that received some kind of aid was almost double that of nonproprietary undergraduates, 85 percent versus 47 percent respectively, in

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[25]According to a CRS analysis of data from the National Postsecondary Student Aid Study, or NPSAS, about 54 percent of proprietary school students are independent compared to 24 percent of undergraduate students attending 4-year private schools and 27 percent of undergraduate students attending 4-year public schools.

[26]*Trends in Student Aid*. Washington, College Board, Aug. 1989. Monograph. p. 12.

[27]A more complete and detailed analysis of NPSAS data was conducted for another paper in our series, *Proprietary Schools: A Description of Institutions and Students*.

academic year 1986-1987. A proprietary school student was more likely to receive title IV aid, particularly a GSL: 79 percent of proprietary school students received some title IV assistance, and 67 percent received a GSL. Compared to title IV assistance, proprietary school students received little State aid and minimal institutional assistance.

Nonproprietary school undergraduates were also more likely to receive title IV assistance than other types of aid, but to a considerably lesser extent: only 29 percent received some title IV assistance. Also, nonproprietary school students received GSLs and Pell grants at about the same rate as they received State and institutional aid, between 15-18 percent.

**TABLE 2. Undergraduate Recipients of Student Aid**
(% receiving aid)

| Type of aid | Proprietary school students | Nonproprietary school undergraduates |
|---|---|---|
| Any aid | 85% | 47% |
| State aid | 10 | 15 |
| Institutional aid | 5 | 18 |
| Title IV aid[a] | 79 | 29 |
| Guaranteed Student Loans (GSLs) | 67 | 18 |
| Pell grants | 47 | 16 |
| Campus-based aid[b] | 14 | 8 |

[a]Includes Pell grants, Supplemental Educational Opportunity Grants (SEOGs), Guaranteed Student Loans (GSLs), National Direct Student Loans (NDSLs), College Work-Study (CWS) assistance, and State grants supported with title IV State Student Incentive Grant funds.

[b]Includes SEOGs, NDSLs, and CWS assistance.

**NOTE**: Includes full-time and part-time students.

**Source**: CRS analysis of *National Postsecondary Student Aid Study* data.

Arguably, a higher proportion of proprietary school students receiving title IV aid would be expected because most of its programs are need-based and proprietary students tend to be lower income than other postsecondary students. If the NPSAS data are compared by income category, however, there is still a higher use of title IV aid programs by proprietary than by

nonproprietary school students.[28] This is because proprietary school students face relatively high educational costs compared to most undergraduate students and because there is little aid from non-title IV sources otherwise available.

Table 3 shows that 74 percent of proprietary school students with family incomes below $17,000 received GSLs, compared to 24 percent of nonproprietary school undergraduates in this income category.[29] Similar proportions are indicated in the next income category, $17,000 to $29,999. This high use of GSL borrowing by lower income proprietary school students could result from the lack of State and institutional grant aid available to such students to make up the difference between a Pell grant and their educational expenses.

For Pell grants, there is also a considerable difference between the use of that program by proprietary and nonproprietary school undergraduates in similar income categories. About 68 percent of proprietary school students in the lowest income category received Pell grants compared to 42 percent of nonproprietary school undergraduates in that income category. Again, this could be influenced by the generally higher educational expenses at proprietary schools and the lack of nonfederal aid.

Another possible influence on the difference might be the higher proportion of independent students in proprietary schools, as previously mentioned.[30] It is also possible that the proprietary school students tend to have fewer financial assets, which also influence grant eligibility, than the nonproprietary undergraduates.[31]

It should be noted that the specific differences between the proportions of students in various income categories participating in aid programs will be influenced by the income levels chosen for the analyses and the relative distribution of numbers of students in the income groups.

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[28]The NPSAS income data should be viewed with some caution because it is student self-reported.

[29]GSLs were non-need tested for borrowers with adjusted gross incomes below $30,000 at the time of the NPSAS survey.

[30]About 36 percent of nonproprietary undergraduates are independent compared to 54 percent of proprietary school students, according to a CRS analysis of NPSAS.

[31]ED Pell grant data on recipients in the 1986-1987 academic year shows that 54 percent of independent students had no assets, compared to 30 percent of the families of dependent students.

**TABLE 3. Students Awarded Title IV Financial Aid By Family Income[a]**
(% receiving aid)

| | Proprietary students | | | Nonproprietary undergraduates | | |
|---|---|---|---|---|---|---|
| Type of aid | Less than $17,000 | $17,000-$29,999 | $30,000+ | Less than $17,000 | $17,000-$29,000 | $30,000+ |
| GSL | 74% | 74% | 58% | 24% | 24% | 15% |
| Pell grant | 68 | 39 | 15 | 42 | 17 | 4 |
| Campus-based aid[b] | 16 | 17 | 9 | 16 | 12 | 4 |

[a]Student reported data.

[b]SEOGs, NDSLs, and CWS aid.

**NOTE**: Includes full-time and part-time students.

**Source**: CRS analysis of *National Postsecondary Student Aid Study* data.

# CHAPTER 3
# CONCERNS REGARDING PROPRIETARY SCHOOL PARTICIPATION IN TITLE IV AND RECENT RESPONSES

- **ED's Inspector General finds major instances of fraud and abuse in title IV programs, particularly at proprietary schools.**

- **Many proprietary schools are reputable, and there are no reliable comprehensive data on the extent of title IV program abuses by proprietary schools.**

- **Proprietary school students default at rates nearly double that of 2-year postsecondary institutions and about 4 times that of 4-year institutions.**

- **The Administration and Congress have undertaken steps to control student aid program abuses and defaults on student loans, which disproportionately affect proprietary schools.**

Concerns over proprietary school participation in title IV programs are rooted in two major problems: apparent profiteering from title IV by some unknown number of schools through fraudulent and abusive practices; and, high GSL default rates by proprietary school students. There is debate over the extent to which these problems may be interrelated--that is, that school abusive practices are **causing** high defaults--but there is general agreement that they exist and should be addressed to assure the future viability of title IV programs.

Within the last year the Administration and Congress have devoted considerable attention to controlling defaults. While their initiatives are not specifically directed at any particular type of institution, proprietary schools are those most obviously affected. The proprietary school industry itself also has initiated an antidefault program for its schools. Other efforts at the Federal level are directed at controlling student aid fraud and abuse. They also are not specifically aimed at proprietary schools but have the greatest effects on them.

This chapter describes how the problems of program abuse and GSL defaults relate to proprietary school participation in title IV, and the recent initiatives taken in response to these problems. One such response was a significant change in program regulations in June 1989 imposing sanctions, which could include termination from title IV program participation, against schools with high GSL default rates. The regulations also require vocational schools, including proprietary schools, to provide certain consumer disclosures. In December of 1989, Congress enacted legislation to prevent undergraduate

students attending schools with high default rates from borrowing SLS loans, and to reduce SLS loan maximums for short-term undergraduate programs, such as those provided by proprietary schools. Also, ED's Office of Inspector General (OIG) has undertaken a broad-based investigatory and audit initiative in the area of student aid program abuse.

## PROGRAM ABUSE

Since widespread public funding of proprietary schools through student aid was first available under the GI Bill, questions have been raised about profiteering by school owners, the quality of education and training their schools provide, and the schools' stability. Federal oversight activities in past years have addressed issues relating to the use of student aid programs by proprietary schools, but they did not elicit any major policy changes.[32]

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[32]Over the years numerous congressional hearings concerning title IV programs either touched or focused on proprietary schools. With several exceptions, the hearings did not result in reports with recommendations for change. An investigation for which a report was issued was conducted by the House Committee on Government Operations in 1974. The Committee specifically focused on proprietary vocational education because of the increased Federal support that recently had become available to the proprietary school industry. In its report, *Reducing Abuses in Proprietary Vocational Education*, the Committee was supportive of the industry's ability to train people for employment, and noted that the profit motive forced schools to seek out students who might not otherwise avail themselves of education or training. It was critical, however, of the high dropout rate at proprietary schools, and the tendency of some to recruit students deemed incapable of succeeding in the course of study. The Committee further noted the schools' "excessive dependence" on recruitment of federally aided students, and inadequate checks by the Federal Government, States, and accrediting agencies on school operations. (U.S. Congress. House. Committee on Government Operations. *Reducing Abuses in Proprietary Vocational Education*. Twenty-seventh Report by the Committee on Government Operations. House Report No. 93-1649, 93d Cong., 2d Sess. Washington, GPO, 1974. 45 p.)

Also in the mid-1970s, the Federal Trade Commission (FTC) conducted extensive hearings and issued a report on proprietary vocational and home study schools on which it later based regulations establishing certain controls on practices by the industry that were considered abusive to consumers. The Commission found unfair or deceptive actions in the areas of recruitment and enrollments at the schools to justify a final rule published in Dec. 1978, which required proprietary schools to provide pro rata refunds to students withdrawing from courses and to provide certain consumer information to students including graduation and placement rates. (*Federal Register*, v. 43, Dec. 28, 1978. p. 60796-60827.) Proprietary schools subsequently sued the FTC, and the 2d Circuit set aside the rule and remanded it to the Commission for further proceedings. (*Katherine Gibbs School, Inc. v. FTC*, 612 F. 2d 658 [2d Cir. 1979]) In 1988, the FTC terminated the rulemaking proceeding for several reasons. It found that the available evidence on which the original policy was based was too old to use as the basis for new regulations. Also, it argued that ED was expected to issue default regulations that could change the practices of proprietary schools that were at issue. Finally, it found the evidence in the original rulemaking record to be inadequate to justify the rule. (*Federal Register*, v. 53, Aug. 5, 1988. p. 29482-29483.) Nevertheless, general FTC rules apply to the schools.

In 1984, GAO studied the administration of the Pell Grant program by proprietary schools at the request of the House Subcommittee on Postsecondary Education and Representative Richard Gephardt of Missouri. GAO found, among other things, that non-high school graduates admitted to schools on the basis of their ability to benefit (ATB) from the school's program (continued...)

Congress and the executive branch have generally looked to the enforcement of existing law and regulations to resolve any problems defined in these reports. The amount of title IV funding available to financially needy students today and the extent to which such aid enables such students to attend proprietary schools have prompted a new wave of newspaper accounts, and investigative reports chronicling fraudulent and abusive practices by schools.[33]

What are the alleged abuses? The common charge among critical reports and exposés is that schools undertake practices to reap excessive profits through tuition and fees paid for by students funded by aid programs. A recent report by New York State's Department of Education summarized such practices:

> These abuses have to do with fraudulent claims made by schools and their agents, improper admissions to schools and programs, substandard program quality and failures to make tuition refunds. These problems are associated with high rates of student failure in programs that are almost entirely paid for by public funds. In particular, evidence suggests that tens of millions of dollars yearly are borrowed by students who are not prepared to complete the programs in which they are enrolled. In addition to not having attained job skills these individuals must suffer the economic burden of loan repayment or choose to go into default. . . .[34]

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[32](...continued)
dropped out or were terminated at a high rate, and urged the Department of Education to either tighten the criteria for schools to admit such students, or seek legislation to repeal the law authorizing schools participating in Federal student aid programs to admit ATB students. ED proposed the repeal of the ATB provisions as part of its program budget request, but Congress did not act on the proposal. (U.S. General Accounting Office. Report by the Comptroller General of the United States. *Many Proprietary Schools Do Not Comply with the Department of Education's Pell Grant Program Requirements*. GAO/HRD-84-17. Washington, 1984. 56 p.)

[33]A number of major metropolitan newspapers have published a series of articles on proprietary school abuses including: the *St. Petersburg Times* (Fla.), Apr. 20-22, 1986; *Newsday* (Long Island, N.Y.) June 22, 1986; *Hartford Courant* (Conn.), Nov. 8, 1987; *Arizona Republic* (Phoenix), Dec. 13, 1987; *Chicago Sun-Times*, Jan. 3-8, 1988; *Cleveland Plain Dealer*, Apr. 24-27, 1988; *Los Angeles Times*, June 16-17, 1988; and the *Houston Chronicle*, May 26, 27, and June 1, 1989. Major reports include: Banerjee, Nella. *Unfair at Any Price: Welfare Recipients at New York Proprietary Schools*. New York, Interface, 1989. 112 p.; Fitzgerald, Brian and Lisa Harmon. *Consumer Rights and Accountability in Postsecondary Vocational-Technical Education: An Exploratory Study*. Washington, Pelavin Associates, 1988. 80 p.; McCormick, Joe L. *School or Scandal? Schools with Unscrupulous Practices that Invade and Abuse the Guaranteed Student Loan Program*. Austin, Texas Guaranteed Student Loan Corporation, July 1989. Monograph. 16 p.; New York State. The State Education Department. Office of Continuing Education. *A Comprehensive Policy for Approaching Proprietary School Issues*. Mar. 6, 1989. Monograph.

[34]New York State Department of Education, *Comprehensive Policy for Approaching Proprietary School Issues*, p. 3.

Specific abuses of some proprietary schools described in other reports included: recruiting students from unemployment and welfare lines and at homeless shelters; promising student financial aid to support their enrollments, which would include "spending money" for the student; admitting obviously unqualified students (such as enrolling non-English speaking students in a program taught in English) through altering "ability to benefit" tests; having obsolete or inadequate equipment and facilities; and failing to refund tuition payments when the student dropped the program.[35]

The New York report concluded that the primary reason for such abuses was that student financial aid programs rewarded enrollments rather that program completion--the public funds were provided "up front." It stated:

> Combined with the general characteristics of students attending non-degree vocational institutions, this creates a set of incentives to enroll as many students as possible rather than efforts to assist students to achieve vocational skills.[36]

That student financial aid program abuses have existed and continue to exist in varying degrees at some proprietary schools is not a subject of dispute. At issue is the extent of such program abuses. Most available information on fraud and abuse is anecdotal and is not sufficient to determine either how pervasive such practices are or their effects on students or student aid programs.

The Inspector General of ED, James B. Thomas, Jr., confirmed in February 1990 testimony before the Senate Committee on Governmental Affairs that his office (OIG) believes that proprietary schools are a major cause of concern for student financial aid programs. He said:

> OIG has assessed the student aid programs as being the most vulnerable to fraud and abuse in the Department. This assessment is based in part on audits and investigations over the last few years which have disclosed major fraud and abuse in these programs, particularly at proprietary schools.[37]

Mr. Thomas further stated that his office continues to find "numerous" instances of fraud and abuse at proprietary schools. FY 1989 audits of 30 proprietary schools by the OIG resulted in $77 million in recommended

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[35]See, McCormick, *School or Scandal?*; also, Fitzgerald and Harmon, *Consumer Rights and Accountability*.

[36]New York State Department of Education, *Comprehensive Policy for Approaching Proprietary School Issues*, p. 3.

[37]U.S. Congress. Senate. Committee on Governmental Affairs. Permanent Subcommittee on Investigations. *Abuses in Federal Student Aid Programs*. Hearings, 101st Cong., 2d Sess., Feb. 20, 26, 1990. Washington, GPO, 1990. p. 31. (S. Hearings 101-659)

recoveries to title IV aid programs. Investigations the same year resulted in indictments of 10 school owners, 3 officers of schools, 31 employees and 1 school entity; all 10 owners were convicted as well as 1 officer and 12 employees. He noted that ED initiated actions to end the participation of 30 proprietary schools in title IV programs during FY 1989 under regulations.[38]

Because of the lack of reliable comprehensive data on the extent of fraud and abuse by the proprietary sector, it would be unwise to generalize that such problems pervade the industry as a whole. Even the most critical reports on the sector note that many proprietary schools are reputable and warn against making sweeping conclusions about the industry from reports of abuse.[39] Many proprietary schools have been in business over many years, supporters have argued, have relatively high job placement rates and the respect of the businesses in which graduates are employed. Such schools, they say, perform a valuable service to their communities and the nation by training low income, mostly urban, populations for well-paying jobs. Community colleges and the other sectors of postsecondary education, supporters contend, often have no interest in serving such populations, who need short-term, intensive, nonacademic vocational training.

## GUARANTEED STUDENT LOAN DEFAULTS

Since GSLs are the dominant type of title IV assistance, the high rate of proprietary school loan defaults under the program has also caused concern about the sector. Recent studies by ED and GAO of GSL defaults by postsecondary institutional type found that nearly 40 percent of proprietary school students default on their loans compared to about a quarter of students attending 2-year public (community college) programs, a fifth of students attending 2-year private schools, and about 10 percent of students in 4-year

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[38]Ibid.

[39]McCormick, *School or Scandal?*, p. 1; also, Fitzgerald and Harmon, *Consumer Rights and Accountability*, p. 66. In conversations with CRS, persons who are knowledgeable in postsecondary education and persons administering student aid programs, who do not have a personal stake in the industry, have expressed a similar theme. Representatives of, or contractors for, the proprietary industry are the authors of a number of essays on the merits of proprietary education. See, for example, U.S. Department of Education. *Hearings on the Reauthorization of the Higher Education Act of 1965*. Testimony of Stephen J. Blair, President of the National Association of Trade and Technical Schools. Unpublished, Washington, Nov. 20, 1989. Also see, Lee, John B. *Economically, These Schools Make Good 'Cents'*. Career Training, Nov. 1987. p. 26-34.

public or private schools.[40] Both studies looked at the default record of students who took out their last loans in 1983.[41]

The GAO study also found that proprietary school borrowers had a disproportionate share of defaulted **dollars**. About 14 percent of all cumulative loan dollars were borrowed by proprietary school students, but such students accounted for 36 percent of the cumulative dollars in default. Because the proportionate share of GSLs borrowed by proprietary school students increased significantly since 1983 to about 30 percent in 1988, this finding has important implications for the issue of default costs today.

Recent default control policies targeting high default schools have given rise to the calculation of "cohort" default rates by institution. The "cohort" consists of Stafford loan and SLS borrowers entering repayment in a given fiscal year. The cohort's default "rate" is the number of the cohort borrowers who default by the end of the *following* fiscal year divided by total borrowers in the cohort. ED's FY 1987 cohort default data indicates that about 71 percent of schools with cohort default rates over 20 percent were proprietary schools. Proprietary schools constituted about 40 percent of all schools for which the default data were available. Of all proprietary schools for which data were provided, 61 percent had default rates over 20 percent.[42] ED analyses showed a decline in the default rate for all proprietary schools from similar FY 1986 data, from 40 to 33 percent, but noted that such schools continued to have default rates about twice the rate of 2-year institutions and about four times the rate of 4-year institutions.[43]

A recent and particular concern regarding proprietary schools and defaults has been the large degree of proprietary school student borrowing under the

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[40]Department of Education, *FY 1988 Guaranteed Student Loan Programs Data Book*, p. 39-40; and, U.S. General Accounting Office. Briefing Report to Congressional Requesters. *Guaranteed Student Loans: Analysis of Default Rates at 7,800 Postsecondary Schools*. GAO/HRD-89-63-BR. Washington, 1989. 224 p. A more recent ED analysis, which has not been published, found the proprietary school borrower default rate to be 50.6 percent compared to a rate of 32.6 percent for 2-year public school students, 16 percent for 2-year private school students, 14.3 percent for 4-year private school students and 12.7 percent for public 4-year school students. These rates were calculated for students with Stafford (subsidized) loans, who entered repayment in FY 1985. The default experience of their loans was followed through FY 1988.

[41]The ED study's cohort included only students whose loans entered repayment by Sept. 30, 1987. The GAO study had no such cutoff date but only included as defaulters, students who entered default status by Sept. 30, 1987.

[42]U.S. Department of Education. *FY 1987 Cohort Rates by Institution Stafford Loan Program*. Unpublished, Aug. 3, 1989. CRS calculations of proportionate share of proprietary school defaults.

[43]Such rates for all types of postsecondary schools declined between the years. U.S. Department of Education. *Fact Sheet on Student Loan Defaults*. Unpublished, dated Aug. 8, 1989.

SLS program since FY 1987. The GAO report on the SLS program, mentioned above (p. CRS-10), found that loans to short-term proprietary school students constituted the largest proportion of default claims over the 3-year period. About $250 million (80 percent) in SLS default claims were attributable to proprietary school students, in contrast to $62 million (20 percent) to students in other schools. These data are not surprising because of the high volume of proprietary borrowing since 1987 and the large proportion of proprietary borrowers in the program by FY 1989. Further, a large portion of these post-1987 proprietary school loans also entered repayment status during the period because of the short-term nature of proprietary school programs.

What the GAO study on SLS loans does not show is the SLS default **rate** of students in proprietary schools. If it was roughly comparable to the rate experienced for regular GSLs, the significant increases in proprietary school student borrowing under the SLS program would have a considerable impact on future program default costs.

Why are proprietary school default rates high? No studies have been conducted on proprietary school borrowers *per se* to answer this question. Studies of student loan defaulters, however, indicate that the major characteristics of defaulters are also the characteristics of students more commonly served by proprietary schools than by other postsecondary institutions: low income of the student or student's family; enrollment in a short-term course of study; and a low loan balance.[44] Some believe that abusive practices by or characteristics of some proprietary schools--misleading advertising, recruitment of unqualified students, poor educational programs--contribute to a student's proclivity to default. One study of California high-default proprietary schools and community colleges found student rather than institutional characteristics or practices the institutions used to curb defaults to be of "overwhelming importance" in predicting defaults.[45] Otherwise, there is little information on which to base a conclusion in this regard.

## DEFAULT CONTROL EFFORTS

Default control policies recently adopted by ED and Congress are, in many respects, directed at proprietary school problems. Major organizations

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[44]Another paper in this series, *Proprietary Schools: A Description of Institutions and Students*, discusses demographic characteristics of proprietary students. For a discussion of studies on the characteristics of defaulters see, U.S. Congress. House. Committee on Education and Labor. Subcommittee on Postsecondary Education. *Student Loan Defaults--The Belmont Task Force Report*. Hearings, 100th Cong., 2d Sess., Feb. 2-3, 1988. Washington, GPO, 1988. p. 11.

[45]Wilms, Wellford W., Richard W. Moore, and Roger E. Bolus. *Whose Fault is Default? A Study of the Impact of Student Characteristics and Institutional Practices on Guaranteed Student Loan Default Rates in California*. Educational Evaluation and Policy Analysis, v. 9, spring 1987. p. 50.

representing the proprietary schools also have responded to the high default rates among many with a default reduction plan. These initiatives presume that schools are either to some degree responsible for defaults, or that they can do more to prevent defaults among the students they serve.

### The Department of Education's Default Initiative[46]

On June 1, 1989, Secretary of Education Lauro Cavazos announced regulatory, administrative and proposed legislative measures to help reduce defaults under the GSL program. The central focus of the initiative, as evident in new default regulations, is to make institutions take some responsibility for student loan defaults. This represented a major shift in default control policy established in statute and under previous rules, which had concentrated on the roles of the lenders and guaranty agencies in diligently pursuing collections on loans and on educating borrowers about their rights and responsibilities. The impetus for this shift was the Administration's belief that program abuses by proprietary schools, particularly in the areas of recruitment and admissions, increased the likelihood of future loan defaults.

The default regulations[47] issued in June 1989 prescribe sanctions to be taken against institutions participating in the GSL program when the annual cohort default rates[48] of their students reach unacceptably high levels. Sanctions range from requiring the school to implement a default management plan to terminating the school from program participation. While not singled out, proprietary schools are disproportionately affected by the new regulations because, as discussed above, they tend to have higher default rates than other institutions of postsecondary education.

Under the new rule, schools with default rates over 20 percent must agree to adopt certain antidefault measures described in appendix D of the regulations or submit their own default management plan. Schools with default rates over 30 percent must delay loan disbursement for 30 days to first-time loan borrowers, and effective June 5, 1990 must prorate tuition refunds to borrowers who drop the course of study before it is halfway over. Both these actions, which **also** are required under appendix D, are clearly aimed at controlling defaults and other Federal aid losses by students dropping out of programs early.

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[46]For more detailed information on the default initiative see, U.S. Library of Congress. Congressional Research Service. *The U.S. Department of Education's Student Loan Default Reduction Initiative: Background and Analysis*. CRS Report for Congress No. 89-454 EPW, by Charlotte Fraas. Washington, 1989. 22 p.

[47]*Federal Register*, June 5, 1989, p. 24114-24127.

[48]The "cohort default rate" is calculated by dividing the number of Stafford loan and SLS loan borrowers entering repayment in the fiscal year in question by the number of such borrowers who default by the end of the succeeding fiscal year.

Effective January 1, 1991, schools with default rates exceeding 60 percent for FY 1989 will be immediately subject to a determination by the Secretary of ED of whether to initiate a proceeding to "limit, suspend or terminate" the institution from participation in title IV programs (hereinafter referred to as an "LS&T" proceeding). After 1991, this "trigger" rate drops in 5 percent increments annually to 40 percent. Also, schools with default rates between 40 percent and 60 percent for FY 1989 will be required to reduce their rates by 5 percent in each subsequent year or face a possible LS&T action.

The final regulations also have other elements that would primarily affect proprietary schools. They require proprietary and any other trade, technical and other career schools[49] to compile and disclose to students certain consumer information such as:

- all State licensure or certification requirements for the vocational field;
- the pass rate of the program's graduates for the most recent year on the licensure or other examination required by the State for employment in the vocational field;
- the job placement rate based on actual placement in the trade for which the program was offered;
- the completion rate for students in the program, to include students who completed the program or students who obtained full-time employment in the occupation for which the training was offered within 150 percent of the time normally required to complete the program; and
- any other information needed to substantiate an institution's claims regarding job placement.

The regulations require all schools to provide loan counseling to first-time borrowers.

ED also proposed regulations[50] to require proprietary and other private career schools to establish a "teachout" arrangement with a school offering a similar career program. Under such an agreement, the "teachout" school, at no added cost to the student, would provide the student with the opportunity to complete his or her course of study after the original school closed. ED

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[49]These requirements apply to all undergraduate nonbaccalaureate degree programs designed to prepare students for a particular vocational, trade, or career field, so they also affect many community colleges. Similar disclosure information also must be supplied by other institutions *if* the institution publicly makes a claim as to the job placement experience of its students to attract other students to enroll.

[50]*Federal Register*, June 5, 1989, p. 24128-24129.

has delayed final publication of this rule because of operational problems identified by commenters, and is currently examining alternative policies.

Among the default prevention actions ED announced as part of its default initiative were those to increase consumer information available to potential Stafford Loan program borrowers. ED intends to publish the default rates of participating schools, lenders, and guaranty agencies, and to compile and disseminate the disclosures on vocational programs that must be reported annually under the new regulations. The Department would also further publicize its consumer "hotline" for students receiving Federal aid.

**Legislation in the 101st Congress**

Enacted at the close of the 101st Congress, the Omnibus Budget Reconciliation Act of 1989, P.L. 101-239, included the "Student Loan Reconciliation Amendments of 1989" to make certain changes in the GSL program to effect budget savings. Major provisions of this law reflect the view that the level of GSL defaults is in part due either to practices of participating schools or to their students' use of the loan programs.

One major concern addressed in the Student Loan Reconciliation Amendments was the potential impact of proprietary school student participation in the SLS program. Effective January 1, 1990 through FY 1991, the new law prohibits undergraduate students at schools with cohort default rates of 30 percent and over from borrowing SLS loans; and reduces the maximum SLS loan available to students in short-term programs from $4,000 to $2,500 (programs of two-thirds of a year to a year) or $1,500 (programs of one-third to two-thirds of a year). Another provision apparently aimed at proprietary school and other short-term courses requires a 30-day delay in the disbursement of SLS loans to students lacking a year of successfully completed undergraduate study. The amendments further deny SLS eligibility to ability-to-benefit (ATB) students.

Other provisions of P.L. 101-239 respond to alleged program abuses leading to defaults. One would require all postsecondary institutions admitting ATB students to make available to such students a program to help them obtain a high school equivalency certificate. Others would authorize ED to take emergency actions to stop the participation of institutions, institutions' agents, or lenders in student aid programs for up to 30 days rather than going through the customary due processes involved in LS&T proceedings. Also, in response to the problem of "accreditation jumping,"[51] the new law would require certification for student aid program participation to be withheld from institutions that lost their accreditation within the preceding 24 months.

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[51]This refers to losing accreditation with one agency and being accredited by another to retain title IV program eligibility.

ED appropriations legislation for FY 1990, P.L. 101-166, included a provision that in part responds to concerns about proprietary schools. This law requires schools with default rates over 30 percent to establish a pro rata refund policy for **all** title IV program funds, similar to the requirement for GSL program funds imposed by regulation in June, 1989.

### Proprietary School Industry Antidefault Initiative

Sensing the growing debate over the proprietary school participation in the GSL program and its impact on defaults, major groups representing proprietary schools[52] in 1987 undertook a default reduction effort. The Career Training Foundation (CTF), which is an industry-sponsored research and training office, organized and produced the effort. Products of the initiative included a manual for schools, workshops, videotapes and pamphlets explaining the student's obligation when taking out a loan.[53]

## OTHER FEDERAL EFFORTS ADDRESSING PROPRIETARY SCHOOL ISSUES

Persistent reports of abuses by some proprietary schools participating in title IV programs have also led to some recent initiatives by ED's OIG and by a congressional investigating committee.

### Department of Education, Office of Inspector General's Initiative

In setting its priorities for FY 1989, ED's OIG identified student financial aid programs as those Department programs "most vulnerable to fraud, waste, and abuse," and decided to concentrate substantial resources to audits and investigations of them. Prompted by recurring instances of fraudulent and abusive practices by proprietary schools, much of this OIG effort was focused on these institutions.[54] The OIG's objective under the effort, which has since consumed about 70 percent of its total staff time, is to influence the HEA reauthorization, as well as the development of regulations and program operations.[55] The OIG is independent of the Department of Education, and fundamentally acts as a watchdog over its operations.

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[52]Association of Independent Colleges and Schools (AICS), National Association of Trade and Technical Schools (NATTS), National Association of Accredited Cosmetology Schools (NAACS), National Association of Health Career Schools (NAHCS), National Home Study Council (NHSC).

[53]Dent, Richard. *Default Management and the Proprietary Sector*. Career Training, v. 6, no. 2, Dec. 1989. p. 8-9.

[54]U.S. Congress. Senate. Committee on Appropriations. Departments of Labor, Health and Human Services, Education and Related Agencies Appropriations: Fiscal Year 1990. Hearings on H.R. 2990, 101st Cong., 1st Sess. Washington, GPO, 1990.

[55]Briefing for House and CRS staff by OIG representatives, Feb. 7, 1990.

As of March 1, 1990, the OIG had produced 16 papers pursuant to the student financial assistance initiative, many of which address proprietary school issues.[56] Most of these papers are *Management Improvement Reports* (MIRs) finding deficiencies in ED's administration of student financial aid programs that appear to facilitate program abuses in such areas as accreditation/eligibility/certification, branching, ability to benefit, and course stretching. The OIG not only makes recommendations on administrative and regulatory changes, but also suggests amendments to title IV in selected areas to prevent program abuse.

### Hearings by the Senate Permanent Investigations Subcommittee

The Permanent Investigations Subcommittee of the Senate Committee on Governmental Affairs, chaired by Senator Sam Nunn, has launched an investigation of Federal student aid programs, concentrating on the GSL program. In February 1990 the Subcommittee began a series of hearings.[57]

The first Subcommittee hearings have addressed program fraud and abuse, largely by proprietary schools. Subcommittee investigators called fraud and abuse in the proprietary sector a serious problem for student aid programs that was getting worse. They found generally that the student aid programs provided an incentive for unscrupulous school operators to profit at the expense of the taxpayer and that controls over potential abuses were seriously lacking.[58]

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[56]Analyses particularly addressing proprietary school issues included: *Inequitable Clock to Credit House Conversions Harmful to Students and Taxpayers*. Management Improvement Report No. 90-14, Feb. 21, 1990; *Unrestricted Branching is Detrimental to Students and Taxpayers*. Management Improvement Report No. 90-13, Feb. 20, 1990; *Improving the Supplemental Loans for Students (SLS) Program*. Management Improvement Report No. 90-11, Feb. 14, 1990; *Improving Ability to Benefit Determinations and Related SFA Admissions Practices in the Department's SFA Programs*. Management Improvement Report No. 90-2, Nov. 15, 1989; *Stretching of Training Programs Beyond the Length Needed to Prepare Students for Gainful Employment*. Management Improvement Report No. 89-09, Sept. 27, 1989; *ED Has Determined Certain Institutions to be Eligible for the SFA Programs Without Verifying Data on Course Length*. Management Improvement Report No. 89-02, Dec. 23, 1988; *Issues Noted to Date in Our Audits of the Postsecondary Accreditation, Institutional Eligibility and Certification Processes*. Memorandum to Mitchell L. Laine, Assistance Inspector General for Audit from Charles J. Brennan, Regional Inspector General for Audit, Headquarters Audit Region, dated Feb. 14, 1990.

[57]Senate Committee on Governmental Affairs, *Abuses in Federal Student Aid Programs*.

[58]Ibid., p. 27.

# CHAPTER 4
# BASIC POLICY QUESTIONS AND RELATED ISSUES

- **Access of some vocational students to postsecondary education could be reduced by changes in proprietary school eligibility for title IV.**

- **Increases in Pell grant awards to proprietary school students could be limiting the amount of grant aid available for college and university students.**

- **Proprietary school student loan defaults may be threatening the stability of student aid programs.**

- **Title IV may not afford the best mechanism for aiding proprietary school education, but alternative aid policies may be limited due to budget considerations.**

The significant and growing proportion of title IV aid awarded to proprietary school students, coupled with the abuse and default concerns, may lead Congress to consider whether program policy should change towards proprietary schools. Two fundamental questions appear to be obvious for policymakers to consider: how important are proprietary schools as a postsecondary vocational education resource; and, are title IV programs the most appropriate source of Federal aid to support the vocational education provided by proprietary schools?

There is a lack of comprehensive unbiased national data on which to base answers to these questions. The questions suggest, however, an analysis of some major issues that may be useful in this regard: the access of students to postsecondary education; costs to students and taxpayers; student aid for short-term, nondegree job training; consumer protection; title IV program integrity; and, student aid as a Federal funding mechanism.

## PROPRIETARY SCHOOLS AS A POSTSECONDARY RESOURCE

Proprietary school students became major beneficiaries of title IV aid in the 1980s. Their high program use could reflect several conditions: the changing needs of postsecondary education and the relative significance of proprietary schools in meeting such needs; the dependency of financially needy proprietary school students on Federal as opposed to other types of student aid; the incentive title IV programs provide for proprietary schools to profit from recruiting and enrolling large numbers of financially needy vocational students.

In considering the future of proprietary schools under title IV, policymakers are likely to assess how important these schools are as a

postsecondary education resource, and the consequences if title IV aid were limited for or eliminated from the sector.

**Access to Postsecondary Education**

A major issue relating to the future participation of proprietary schools in title IV is how such aid affects access of vocational students to a postsecondary education. Title IV student aid has been available to students seeking postsecondary vocational education in eligible institutions because of Congress' wish to treat them equally with college-bound students in terms of eligibility for aid.

Why has the policy of "equity" in student aid programs for the noncollege bound been considered important? One reason is that many persons who may need postsecondary education or training do not choose college. Less than half--about 43 percent--of persons who are 25 have completed even a year of college; only a little over a quarter of all 18-24 year olds are enrolled in college at a point in time.[59] The principle of offering student aid for students to attend the broadest selection of postsecondary educational programs may be especially relevant today as more "nontraditional "students--older students, part-time students, single mothers, persons seeking retraining when their jobs become obsolete, for example--are entering postsecondary educational programs.

How much of postsecondary vocational education does the proprietary sector provide? The National Assessment of Vocational Education (NAVE) concluded that proprietary schools currently serve about 14 percent of all students enrolled in postsecondary vocational education programs. NAVE found that the vast majority of vocational students--67 percent--are in community colleges. Other postsecondary vocational students are served by public vocational-technical schools, and to a limited extent, by private nonprofit institutions.[60]

Would limits on title IV aid to proprietary school students deny the access of some students to a proprietary school education? It certainly could absent new sources of student assistance, or the expansion of aid currently

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[59]U.S. Department of Commerce. Bureau of the Census. *Current Population Reports*. Series P-20, nos. 428 and 429.

[60]Department of Education, *Postsecondary Vocational Education*, p. 20-21. NAVE's estimates are based on "point in time" enrollments and do *not* include programs at degree-granting institutions or junior colleges. The percentage of students served by proprietary schools could rise somewhat if enrollments over the course of a year were compared because of the short-term nature of many proprietary programs. The Career Training Foundation, a proprietary industry-supported research group, reports that proprietary schools "provide 50 percent of the postsecondary vocational training in the United States." The source of these data is not identified and it is unclear how the proportion was calculated. Career Training Foundation. *Private Career School Facts*. Chevy Chase, Maryland, JBL Associates, May 1989.

available to such students through alternative Federal, State or institutional programs. As previously mentioned, according to NPSAS, 79 percent of students attending proprietary schools receive some title IV aid, but only 10 percent receive State aid and 5 percent institutional aid.

The existing alternative sources of Federal aid for proprietary school students are the Job Training Partnership Act (JTPA) and Carl Perkins Vocational Education Act. The current scope of these programs, in terms of purpose, funding, students served, and the relative participation of proprietary school programs, is far more limited than that of title IV. For example, JTPA's title IV-A program providing training for economically disadvantaged youth and adults age 16 and over (the type of needy student often served by a proprietary school) is currently funded at the level of $1.7 billion. Proprietary schools may be among the providers of JTPA job training services, but no information is available on the extent to which they provide such services. As far as the Perkins Act is concerned, only about 40 percent of the $837 million appropriation for Basic Grants, or roughly $335 million, is used for postsecondary vocational education programs for which proprietary schools might qualify. The participation of proprietary schools in the Perkins program is even further limited by the statute: private institutions may receive Perkins funds **only to the extent** that they can provide training at a lower cost than public institutions or if they can provide equipment and services not available in public institutions.[61]

If title IV aid were restricted for proprietary school students, some would have to seek alternative postsecondary education. They could choose a program that would be less expensive than a proprietary school program, such as one available through a public vocational institution or a community college, or for which they would remain eligible for aid. Or, such students could choose to pursue employment for which there would be on-the-job training or apprenticeships. These alternatives could have limited availability or may not be desirable or practical for some. As a result, they might chose not to pursue postsecondary education.

Supporters of proprietary schools have argued that treating their students in some differential manner would be tantamount to educational segregation. Stephen Blair, President of the National Association of Trade and Technical Schools (NATTS), has stated that separate aid programs would amount to "educational apartheid," with one system for higher income mostly white college students and the other system for low-income mostly minority vocational students.[62]

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[61]20 U.S.C. 2341 (a)(22).

[62]DeLoughry, Thomas J. *Colleges Prepare for Two Year Review of Federal Programs in Higher Education*. Chronicle of Higher Education, Oct. 25, 1989. p. A27.

The proportion of students who are from minority groups, with low family income and without a high school diploma or equivalency certificate is higher in proprietary schools than in other postsecondary schools. Such students, however, do not comprise the majority of proprietary school students. For example, according to NPSAS data, about 40 percent of proprietary school students are from minority groups (blacks, Hispanics, Asians) compared to about 25 percent in community colleges, and 22 percent in **all** undergraduate institutions (includes proprietary schools). About 21 percent of proprietary school students are black, compared to about 9 percent of community college students, and 9 percent in all undergraduate institutions. Further, considering the **total population of undergraduates** who are from minority groups, proprietary schools serve about 9 percent.[63]

Advocates for proprietary schools contend that these schools actually **encourage** some students to enroll in postsecondary education. They say that the profit-making nature of the schools forces them to actively seek out students who would otherwise not be attracted to education or training. These are often the students, it is argued, who could benefit most from training. The intensive short-term nature of most proprietary programs, they believe, is best suited for the low-income student with family obligations who cannot afford to be unemployed for an extensive period.

Others maintain that proprietary schools may promote attendance in postsecondary programs, but at a price. They argue that in seeking profit some proprietary schools are overzealous in their recruitment efforts. Such schools may accept students who would have great difficulty succeeding in their programs, such as mentally retarded or non-English speaking persons. Such schools may also provide programs that do not improve the student's employment prospects. In some cases schools may also be financially unstable and close with little notice. The consequences to the students may outweigh benefits from the promotion of postsecondary education by the schools. Such consequences include the loss of a student's self-esteem because of the incomplete training, and lost time during which the student could be employed or be enrolled in a more appropriate educational program. Students with GSLs are also left with indebtedness with little or nothing to show for it.

The potential effects of limiting title IV aid to proprietary school students are debatable. How many and what types of students would lose educational opportunity in part would depend on what alternative policies to fund proprietary education were adopted.

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[63]CRS analysis of NPSAS data. See another paper in this series, *Proprietary Schools: A Description of Institutions and Students*, for more complete information.

**Costs to the Student and Taxpayer**

In considering proprietary schools as a postsecondary vocational education resource there are also issues about their relative cost to the student and the taxpayer. What does the student pay in terms of time and money to attend a proprietary school? How does aid to the proprietary school sector from all public sources compare to aid for other types of postsecondary education? The limited national data on vocational training suggest that such questions cannot easily be answered because course length, how tuition is set, and characteristics of job training by all providers vary to a great degree.[64]

It has been alleged that some proprietary schools may be lengthening their training programs specifically to qualify for title IV aid. The OIG found a problem with "course stretching" by some proprietary schools "substantially beyond what is required to obtain employment," so that students in the training program could qualify for student aid.[65] The OIG made this determination largely based on State licensing requirements for hours of training needed in given occupations. The OIG recommended in part that the

> . . . process of determining program eligibility be strengthened by developing, implementing and monitoring guidelines and that students be adequately informed so they can be wise consumers of training funded with Federal SFA.[66]

Training in some proprietary schools, however, is shorter than in alternative programs. Coursework in proprietary programs is both more intensive and directly related to vocational training. Some argue that even considering the higher tuition cost of proprietary schools they may actually be cheaper in the long run because of lower "opportunity" costs--their students get into the job market faster.[67]

Another issue is how proprietary schools set tuition. It has been alleged that some schools inflate tuition to accommodate the available amount of Federal student aid. Unfortunately, there are virtually no data on how proprietary schools set tuition or what the trend has been. The OIG did find

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[64]See, for example, U.S. General Accounting Office. Office of Audit. *Audit of JTPA Participant Training and Services. Report I--Participant Training and Employment*. Report No. 08-86-801-03-340, Washington, Jan. 25, 1988. p. 53.

[65]*Stretching of Training Programs Beyond Length Needed to Prepare Students for Gainful Employment*, Management Improvement Report No. 89-09. Under current law and regulation, the only control over appropriate course length is through the accreditation process, which apparently is insufficient. The OIG report specifically noted problems in programs providing security guard training, nurse assistant training, and manicurist training.

[66]Ibid., p. 2

[67]See, Lee, *Economically, These Schools Make Good 'Cents'*, p. 28.

instances of proprietary schools inflating tuition costs in response to the availability of new aid under the SLS program in 1987 without any change in the educational program,[68] but there is no indication how widespread such practices might be. The Association for Independent Colleges and Schools (AICS), representing many proprietary schools primarily offering business-related training, reported that the average tuition for its member institutions was $4,433 in the academic year 1988-1989, which was far lower than the available Federal aid. AICS noted that its students tended to use SLS loans for living expenses and **not** for tuition.[69] Some might contend that this AICS pronouncement means little without comparative **tuition** data for previous years--SLS money might be replacing Federal aid that previously supported living expenses.

What is the relative cost to the *taxpayer* to provide a student training in a proprietary school versus a similar public school program? No comprehensive data indicate the proportion of proprietary school revenues that are currently supported through Federal grants and through the cost of student interest benefits and loan defaults. Total title IV support (Pell grants and guaranteed loans for the most part) to students **in aid awards** at some proprietary schools is thought to represent as high as 90 percent of their revenues. Public schools, on the other hand, receive direct public funds, effectively subsidizing what would be a cost for all students. Additional public support is available to needy students through student aid programs.

Another consideration with regard to taxpayer support is that proprietary schools pay income taxes, to some degree offsetting the public costs of student aid; public schools do not pay taxes. While these are important considerations in gaining a perspective on public costs, there are, unfortunately, no data on which to conclude which type of school is more costly to the taxpayer through public support.[70]

Another perspective on taxpayer support is the long-term cost to the taxpayer if the individual loses employment opportunities because he or she loses access to proprietary school training. Such costs could involve, for example, various income maintenance payments (e.g., welfare and food stamps), medicaid, income tax losses because of lack of earnings, and social costs relating to crime. One analysis indicated that annual savings in public

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[68]Unpublished memorandum from Mitchell L. Laine, Assistance Inspector General for Audit to Dr. Leonard L. Haynes III, Assistant Secretary for Postsecondary Education dated Feb. 14, 1990. Management Improvement Report No. 90-11. p. 3. See also, Fitzgerald and Harmon, *Consumer Rights and Accountability*, p. 29.

[69]Association of Independent Colleges and Schools. *Association of Independent Colleges and Schools' Students Rely on SLS Loans for Living Expenses*. News Release dated Oct. 27, 1989, Washington. 1 p.

[70]See, Lee, *Economically, These Schools Make Good 'Cents'*, p. 27-28. Mr. Lee concludes that public schools cost the taxpayer more per student, but provides no statistical evidence.

costs could be three to six times greater than the cost of defaults on GSLs averaging $2,500 apiece if a proprietary school with a 50 percent default rate enrolling 100 students were to remain open.[71] Such analyses are speculative, at best, because of the broad array of assumptions that must be made about the future training and employment of the individual.

In the last analysis, issues relating to the relative cost of proprietary education may be overshadowed by the more fundamental question of whether student and public monies are well spent at proprietary schools. Another paper in this series, *Labor Market Outcomes of Proprietary Schools*, explores the data and issues relating to the outcomes of proprietary education.

## TITLE IV AS THE MAJOR SOURCE OF FEDERAL AID TO PROPRIETARY SCHOOLS

Another major question for Congress is what students title IV programs should serve. In recent years there has been a considerable shift in the proportions of both the GSL and Pell grant funding devoted to proprietary school students, a trend that may continue considering demographics and the status of other Federal job-training aid. Given the nature of these programs are they the most appropriate way to aid students attending proprietary schools?

### Student Aid for Short-Term Non-Degree Job Training

Should title IV programs be the major source of Federal aid for vocational education and job training? Nearly $5 billion in title IV aid annually supports vocational training for financially needy students at proprietary schools alone, not counting other types of vocational schools. Most of this training is short-term and does not lead to a degree. The closest comparable Federal job training program under title II-A of JTPA, which funds training for economically disadvantaged adults and youth (over age 16), has an FY 1990 appropriation of $1.7 billion.

In future years, the demand for title IV aid by proprietary school students could increase as a result of the Federal JOBS program authorized by the Family Support Act of 1988, P.L. 100-485. This program, which all States must operate by October 1, 1990, requires certain low-income persons to receive schooling or job training as a condition for participation in Aid to Families with Dependent Children (AFDC). Proprietary schools may be among the providers of training under this program, and training costs could be supported by title IV student aid programs.

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[71] Shearson Lehman Hutton. *Whither Funding for Vocational Schools?* Monograph. New York, 1989. p. 21. This analysis looks at losses incurred through default on an average loan of $2,500. It does not consider all potential losses from title IV programs due to other factors associated with some schools such as high dropout rates. It also presumes that at least half of all defaulters would be receiving public support through welfare programs.

Arguably, the increased use of title IV aid for job training in proprietary schools is appropriate because it reflects the type of student seeking postsecondary education today and the *flexibility* of title IV in meeting student needs. This country's requirements for skilled workers with some postsecondary education over the next decade is well publicized, and Federal aid will undoubtedly be a key resource to meet this need.[72] Short-term intense vocational training may be a good way to achieve requisite skills for some students, especially some nontraditional postsecondary students--the single mother, the displaced worker, for example--who do not have the time to complete a degree program.

One author recently argued why student aid programs should *not* be used to fund job training programs. His basic point is that student aid programs had become an instrument of social rather than educational policy: title IV was effectively supplementing Federal social programs during tight budget times:

> Political conditions had forced this because the Reagan Administration had limited social welfare and income redistribution programs so that new funds were not available for child care and job training. But student aid programs survived the cuts because they were popular with both Congress and the public.
>
> Higher education associations were sympathetic toward urban social problems and unwilling to oppose shifting funds to benefit inner city residents. Moreover, proprietary schools, which serve a disproportionate number of the urban poor, had become a powerful political force as their share of Pell Grants increased dramatically.[73]

This author concluded that vocational education programs should be separated from student aid programs on grounds of sound *educational* rather than *social* policy:

> Education does not generate social change when it is directed toward job training designed to reduce social tensions and aid economic security. Such training is undeniably important, but it should be financed as a social program, not used to obscure the true benefits of a student assistance program.[74]

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[72]See, for example, Johnston, William B., and Arnold E. Packer. *Workforce 2000: Work and Workers for the Twenty-first Century*. Indianapolis, Hudson Institute, 1987. 117 p.

[73]Kelly, Robert N. *Realigning Federal Student Aid Policy*. Education Digest, Oct. 1989. p. 61.

[74]Ibid., p. 63.

Characteristics of the GSL program make it an attractive type of aid with a constrained Federal budget, which could lend some credence to the argument that student aid funds may be replacing other social program funds. The GSL program leverages considerable private capital to accomplish its public purpose; the benefits are entitlements, virtually untouchable by the appropriations process; the beneficiary eventually repays a large portion of the benefit; and, whatever Federal costs are incurred are done so in budget outyears. The problem with using GSLs or a similar loan model for social goals is that loans and low income clientele are often a poor mix, and the ultimate program cost in defaults, as we now see under the GSL program, damages program credibility.

Concerns about the redirection of student aid programs to support job training center on how it affects the availability of student aid to traditional degree-seeking students at colleges and universities. Pell grants are quasi-entitlements: all students meeting certain criteria through eligibility and need analysis are guaranteed aid, but the amount of aid is conditional on the program's appropriations and the awards are adjusted up or down according to this funding. The minimum grant is $200. Because of Federal budget constraints and the number of students qualifying for the grants, appropriations for Pell grants have not accommodated significant increases in the maximum grant levels: since FY 1982, the maximum grant has risen only $500 from $1,800 to $2,300. These levels are considerably lower than the title IV authorized maximum grant for these years, which is up to $3,100 for the 1991-1992 academic years.

Some argue that the doubling of the proprietary school student share of Pell grants in the 1980s has served to diffuse funds for students seeking degrees: that is, at a given appropriation level, grants to degree-seeking students would be considerably higher if there had not been the increases in proprietary school students receiving Pells.[75] Also, in the case that an appropriation is insufficient to satisfy Pell entitlements, the law authorizes "linear reductions" to be made in awards. Such reductions reduce some awards below the $200 minimum and disqualify some students from receiving any grant.[76] Students at public schools, who have a lower average grant than proprietary school students and private college students could lose Pell grant eligibility more often under these circumstances.

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[75]With the increases in proprietary school student recipients, the total number of degree-seeking students receiving Pell grants remained relatively stable between FY 1981 and FY 1988. The number of students attending *public institutions* offering programs of at least 4 years receiving Pell grants dropped from 540,396 to 516,280.

[76]For example, FY 1990 Pell funding was reduced by $66.5 million by a sequester under the Gramm, Rudman, Hollings law. ED estimates that this will result in the elimination of awards to 14,000 students (whose awards would drop below $200) and about 1.3 million students would have their awards reduced by an average of $50. See, U.S. Department of Education. *The Fiscal Year 1991 Budget. Summary and Background Information.* Washington, 1990. p. 40.

In its report on the Department of Education's FY 1990 appropriations legislation, the Senate Appropriations Committee implied that the effect of increased program use by proprietary school students may be to limit total title IV appropriations because of the cost of defaults:

> While the Committee is supportive of Federal assistance to all needy students pursuing postsecondary education, the Committee is also concerned with the apparent redirection of funds away from needy students seeking to obtain a baccalaureate degree.
>
> A high number of student loan defaults continue to plague the Federal loan programs, especially among students at proprietary institutions . . . The growing cost of defaults has already served to limit the ability of Congress to provide an adequate level of Federal assistance to needy students, especially lower middle class and middle class students, seeking to obtain a college education.[77]

**Protecting the Student Consumer**

Another significant issue in considering continuing proprietary school participation in title IV programs is whether the law and regulations are sufficient to protect students from exploitation by schools. This has become particularly critical because of the extent to which aid to proprietary school students is in loans. The student effectively pays for large proportions of his or her education with the Federal Government functioning as an enabler. If the student does not repay the loan, Federal policy provides specific sanctions against the borrower: a bad credit rating and a prohibition against further participation in title IV student aid programs.

By approving institutional participation in title IV, the Federal Government is implicitly providing assurance to the student consumer that the institution has a program of some merit. Investigative reports and documented cases of title IV program fraud and abuse, as well as many school closings in the proprietary sector[78] suggest that the existing structure to approve schools for program participation often fails to protect student consumers as well as Federal interests. The ED OIG has recently criticized ED's actions in institutional approval processes, suggesting that the regulatory

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[77]U.S. Congress. Senate. Committee on Appropriations. Departments of Labor, Health and Human Services, and Education and Related Agencies Appropriations Bill, 1990. Report to Accompany H.R. 2990. Senate Report No. 101-127, 101st Cong., 1st Sess. Washington, GPO, 1989. p. 275.

[78]According to ED's OIG, between Oct. 1985 and June 1988, 167 proprietary schools certified to participate in student aid programs closed; in 53 of these cases the school closed before its students received all educational services. See, U.S. Department of Education. Office of Inspector General. *Financial Analysis Certification Process Not Adequate to Protect Students and the Government*. Washington, Sept. 1989. p. 12.

problems may lie in implementation.[79] The question remains how much of the ineffectiveness is in the regulatory structure itself.

Under current law and regulation, the Federal Government has a relatively passive role in questions relating to the quality of institutions and programs, the key areas for concern. Federal responsibilities in this area are to approve accrediting commissions that are in turn responsible for approving institutional participants in title IV programs; and to certify that an institution is fiscally and administratively capable of participating in title IV programs. Otherwise ED is responsible for enforcing the law for specific violations by institutions.

The Federal Government relies on two other bodies to judge the relative merits of an educational program: State licensing boards and commissions, and accrediting commissions. Both of the latter are arguably in the best position to judge educational program quality, but Federal program interests are not their first priority. State licensing is subject to the variations of State law and enforcement policies. State licensing boards often are composed of individuals in the industry being judged, which raises questions about their objectivity. Accrediting commissions, composed of industry representatives, have a stake in the reputation of the schools they approve, but they are not responsible for policing their daily activities. Notwithstanding the Federal approval mechanisms, there are inconsistencies among accrediting agencies in the standards used to approve school programs.[80]

Although each of the participants in the tripartite regulatory structure--Federal Government, the State licensing boards, the accrediting commissions--has moved against problem schools, a cooperative effort to remove the "bad apples" from student aid program has not been organized. Some think that ED has a new priority for program reviews and monitoring under Secretary Cavazos and that the existing regulatory structure may be more effective in the future. This potential undoubtedly would be enhanced if the proprietary industry itself were to take more aggressive self-policing actions to protect its future access to title IV aid.

Another consideration is whether proprietary schools should be under more scrutiny than other kinds of schools when being considered for approval for participation in title IV programs. Some conclude that they should because an inherent conflict may exist between the profit motive of these schools and the provision of quality educational programs: the primary objective of a profitmaking enterprise is to make a profit for its owners, which sometimes may be at the expense of the quality of its educational program. On the other hand, some suggest that the profit motive sometimes may

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[79]Ibid.

[80]For a more thorough description of the regulatory structure and discussion of these issues see another paper in this series, *Proprietary Schools: The Regulatory Structure*.

actually serve to enhance educational quality, since it compels some schools to compete with others for enrollments.

**Title IV Program Integrity Issues**

The effect of proprietary school participation in title IV programs on program stability is another important issue. The House Appropriations Committee has called recent GSL default costs of nearly $2 billion annually a "critical problem which unduly burdens the Treasury and which undermines basic support for Federal student aid programs."[81] Because of the relatively high rate of defaults by proprietary school students and the growth of their borrowing, some believe that proprietary school participation in title IV is jeopardizing the future of student aid programs.

Proprietary school issues have had a major effect on the development of recent title IV program policies, particularly as they relate to GSLs. Major administrative and legislative actions to control defaults--the June 1989 default regulations, and the reconciliation legislation--largely respond to problems particularly associated with proprietary schools: high default rates; student drop-outs; tuition refunds; ability-to-benefit students; and consumer disclosure issues. While many policies adopted under these measures are generally beneficial to the program, others have been considered irrelevant to the circumstances at other types of postsecondary institutions,[82] or undesirable. Some believe, for example, that the default rate "triggers" that impose potential sanctions against institutions are arbitrary and will cause some schools to drop students at higher risk of default from their enrollments--those very financially needy students who are the focus of aid programs. Also, the "brush" of the default rate triggers is broad and affects many public and nonprofit institutions, such as Historically Black Colleges, which some have argued is not desirable for social and political reasons.

Proprietary school problems also may erode the willingness of GSL lenders to serve high risk populations. In 1989 Citibank, the largest lender in the GSL program, adopted a policy to refuse loans to students at schools with defaults rates of 25 percent or over.[83] Also, in the spring of 1990 the

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[81]U.S. Congress. House. Committee on Appropriations. Departments of Labor, Health and Human Services, and Education and Related Agencies Appropriation Bill, 1990. Report to Accompany H.R. 2990. House Report No. 101-172, 101st Cong., 1st Sess. Washington, U.S. GPO, 1989. p. 162-163.

[82]Reportedly community colleges in several States are now considering dropping out of the GSL program because of the consumer disclosure and other reporting burdens imposed under the default initiative that they consider irrelevant to their circumstances. See, Mensel, Frank. *Community Colleges: Time to Get Out of GSL?* Community, Technical and Junior College Times, Nov. 21, 1989. p. 4.

[83]Putka, Gary. *Citibank Sets Tighter Credit on Student Aid*. Wall Street Journal, Mar. 15, 1989. p. B12.

College Board and American College Testing Service, two major student aid application processors, announced new programs to deliver GSLs to their client institutions, which are primarily colleges and universities. Because these new programs, involving a large volume in new loans, would effectively exclude proprietary school participation, some fear that the new programs will "cream" most of the lower risk loans, and disrupt the balance of high and low risk loans in the portfolios of other lenders needed to keep the GSL program workable.[84]

Guaranty agencies, which are the direct insurers of GSLs, have also been affected by the number of defaults among proprietary school student borrowers. The Higher Education Assistance Foundation (HEAF), the largest guarantor, recently announced that it faces financial collapse in part because of its policy to insure a large number of proprietary school loans. Before it changed this policy in 1988, nearly 60 percent of the loan volume HEAF insured was to proprietary school students.[85] Also, the law requires guaranty agencies to act as "lenders of last resort" for Stafford (subsidized) loans. Since some banks have shown reluctance to lend to proprietary school students, this requirement has created a concern for these agencies. They argue that they are not equipped to act as lenders, especially not if they inherit a disproportionate share of high risk paper. They argue that the "lender of last resort" provision was intended to assure that there would be no geographical barriers to loan access for a few students, not *institutional* barriers for large numbers of students.[86]

In summary, the delicate balance between private interests and public policy under the GSL program has been disturbed by the increasing concerns about defaults by proprietary school students. The question is whether this relationship would be disturbed even further by some new policy curtailing or discontinuing proprietary school borrowing, which has become such a large volume of the student loan business. One student loan expert, for example, has warned that any major "downsizing" of the loan program could have significant consequences for guaranty agencies because their income, which is a function of the loan volume they insure, would be reduced while their

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[84]See, for example, *Program Could 'Cream' Off Student Loans, Guarantors Say*. Education Daily, May 2, 1990. p. 5. *Groups Agree to Limit Controversial Loan Program*. Education Daily, May 11, 1990. p. 1 and 3.

[85]See, U.S. Congress. Senate. Committee on Labor and Human Resources. Subcommittee on Education, Arts and Humanities. Testimony of Richard C. Hawk, Chairman, Higher Education Assistance Foundation. Washington, Aug. 3, 1990.

[86]The legislative history of the provision is not instructive on this issue.

expenses in default claims on previously guaranteed paper would continue to be high.[87]

The Belmont Task Force[88] and others have contended that the default situation is generally a consequence of the structure of student aid programs. The Task Force concluded that a substantial reduction in the GSL default rate and costs will occur only if high risk populations--low income borrowers in their first year of postsecondary education, for example--are denied access to the loan program. This "high risk" group would undoubtedly include many proprietary school students. The Task Force recommended that title IV grant programs be expanded to accommodate the aid needs of such students so that their access to postsecondary education would not be affected.

Legislation has been introduced in the 101st Congress to provide grants only for students in their first years of postsecondary education with loans being available after that time.[89] While such an approach might be an effective resolution to the proprietary school student default issue and the consequences of debt for such students, it could increase the cost of student aid programs significantly. Further if program exploitation by short-term proprietary schools is contributing to loan losses, Federal program losses resulting from such abuses would be magnified significantly if aid to their students were primarily in grants rather than loans.

### Student Aid As a Federal Funding Mechanism

Assuming that job training is an important postsecondary educational goal, and proprietary school programs are critical resources in achieving this goal, does title IV student aid, as it is currently awarded, provide the best mechanism to deliver Federal aid to support such education? Arguments on both sides of this question center on the fact that most title IV aid is available in loans, but there are added considerations.

Student loans may well be the best way to provide relatively broad Federal support for job training through proprietary schools. As previously mentioned, the program is in place, it is an entitlement in a Federal climate of no "new" entitlements, and it leverages considerable funding from private sources. Further, the student loan "industry"--lenders, servicers, guaranty agencies--now has a considerable fiscal interest in continuing proprietary school lending, which is nearly a third of total loan volume annually.

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[87]See, U.S. Congress. Senate. Committee on Labor and Human Resources. Subcommittee on Education, Arts, and Humanities. Testimony of Jean S. Frohlicher, Executive Director, National Council of Higher Education Loan Programs, Inc. Washington, Aug. 3, 1990.

[88]The Belmont Task Force convened in 1988 at the request of the Chairman of the House Subcommittee on Postsecondary Education to assess the GSL default problem.

[89]H.R. 2020, introduced by Representative William Ford on Apr. 17, 1989.

On the other hand, it could be argued that short-term job training for low-income individuals should not be largely financed through loans. Low borrower income *and* borrowing for short-term educational programs are correlates of loan default. Further, since GSLs are entitlements, any eligible student may receive one, even if there is reason to doubt that the loan would be repaid.

Some believe that student-based aid is the ideal mechanism to deliver postsecondary educational assistance. It affords a needy student considerable flexibility to choose a postsecondary education program that is best for his or her situation, regardless of whether the school is a profit making enterprise or not. Title IV aid not only supports the cost of the program but also the cost of living for the student while in school. It enables the student to find an educational program regardless of where he or she lives in the U.S.

On the other hand, it could be argued that student aid may be the least desirable type of assistance for proprietary school students if a significant number of schools are profiteering through deceptive recruitment practices. Low income and lower achieving students who are clients of proprietary schools are, arguably, among the more unsophisticated citizen populations. Under the current aid structure, such students influence the expenditure of huge amounts of Federal aid. Alternative aid models--block grants for State and local governments to support such training or direct grants or contracts with institutions, for example--could provide more direct governmental control over institutional practices and program outcomes. *If* student aid remains the vehicle, an option might be to withhold a certain amount of aid until the student completes the course of study. This might provide an incentive for the school to improve program outcomes.

Given the condition of the Federal budget deficit, it appears unlikely that funds currently available to proprietary schools through title IV would become available under any **new** program, regardless of the merits of some alternative funding mechanism. This consideration undoubtedly will influence future program policy.

# CHAPTER 5
# CONCLUDING OBSERVATIONS

Congress has at least two basic choices concerning proprietary school issues and student aid programs: to continue the current basic program structure and institutional eligibility criteria, while strengthening its laws and enforcement to control defaults and program abuses; or to make a fundamental change in the eligibility of proprietary schools or of all schools offering short-term nondegree vocational programs. Each alternative has implications for students and the future of student aid policy.

With no major changes in law or regulation affecting program eligibility or program benefits, the trend in the high use of student financial aid by proprietary school students probably will continue, especially in light of the imminent implementation of the JOBs program. Access to **some** student aid by **all** eligible financially needy postsecondary students would be broadest, because the GSL program is an entitlement and Pell grants are quasi-entitlements. The amount of individual Pell grants for college and university students, however, could be problematic because of the potential for increased numbers of vocational students eligible for such grants, and budget restrictions.

This "status quo" alternative implies continued high loan default costs, presuming that GSLs continue to be the primary source of aid and that proprietary school students continue to have higher default rates than other students. Recent or additional antidefault legislative and regulatory action could reduce default rates. If, however, socioeconomic characteristics of the students served are the fundamental cause for high default rates, it appears that the impact of such antidefault measures might not be great. Improved enforcement efforts by all parties involved under the existing regulatory structure--accrediting bodies, States, and ED--could reduce instances of fraud and abuse somewhat. Such efforts might be guided by OIG recommendations.

Restructuring title IV programs to reemphasize grant aid for students in short-term programs, including most proprietary school programs, could have a considerable impact on reducing both default costs, because of concomitant reduction in loan volume, and the default rate. Such a policy change could have significant benefits for proprietary school students, both by reducing their indebtedness and, for some, removing the consequences of default. Such a change could, however, have significant implications for the student aid budget, especially if a large portion of the current level of GSL aid for short-term proprietary school students were replaced by equal amounts of grant aid. Further, if fraud and abuse is a fundamental problem with continued participation of proprietary schools in title IV, a grant-centered aid program would ostensibly incur greater losses for the Government than a loan-centered program, where the borrower shares the loss.

What are the alternatives to funding proprietary school education through title IV? Existing Federal aid sources under JTPA and the Perkins Act programs do not approach the current level of Federal assistance provided under title IV. Proprietary school participation in the Perkins Act is limited by statute, as it may be in practice under JTPA. A new Federal aid program specifically designed to support proprietary school or other students in short-term job training programs could be developed as an adjunct to title IV or the Perkins Act and administered by ED, or as part of job training assistance provided through the Department of Labor. Given the Federal budget climate, however, it appears highly unlikely that existing or new programs would provide the $5 billion in aid currently available to proprietary school students through student aid. This is especially true if an alternative program does not involve some other source of public or private financing, such as the GSL program does.

# APPENDIX A
# HISTORY OF PROPRIETARY SCHOOL INVOLVEMENT IN TITLE IV PROGRAMS

Over the history of title IV of the HEA, Congress has expanded the eligibility of proprietary school participation in student aid programs despite recurring issues concerning the quality of the schools' programs, student outcomes, and consumer abuses by some schools. After analyses of the early experiences under the predecessor GI Bill identified particular problems with proprietary schools, Congress was initially reluctant to include such schools as full participants in the HEA's broad scale student aid programs. By 1972, however, proprietary schools had become equal partners with other postsecondary institutions as participants in title IV programs and, in general, they remain so.

## The GI Bill as Backdrop[90]

The GI Bill of Rights[91] provided a range of readjustment benefits including postsecondary student aid, for some 16 million servicemen returning from World War II. Under the original GI Bill's education program, the standards for approving the course for which a veteran could receive assistance were relatively liberal: the postsecondary institution providing the course had to be "approved" by the State in which it was located, regardless of whether the institution was licensed by the State or accredited. In addition, the school was not required to grant degrees, thereby opening eligibility to a number of vocational schools, including proprietary schools. During the debate on the GI Bill, sponsors noted that the majority of Americans received postsecondary education in schools not granting degrees, and they indicated concern that the program not be dominated by the college and university sector.[92]

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[90]The main sources of this section are: U.S. Library of Congress. Congressional Research Service. *Veterans' Education Assistance Programs*. CRS Report for Congress No. 86-32 EPW, by Barbara McClure. Washington, 1986. 37 p.; U.S. Congress. House. Committee on Veterans' Affairs. *GI Course Approvals: A Report Prepared by the National Academy of Public Administration Foundation for the Veterans' Administration (Pursuant to Public Law 95-202)*. Committee Print No. 48, 96th Cong., 1st Sess., Oct. 18, 1979. Washington, GPO, 1979. 579 p.

[91]Servicemen's Readjustment Act of 1944, P.L. 79-346, June 22, 1944.

[92]See, *GI Course Approvals: A Report Prepared by the National Academy of Public Administration Foundation*, p. 5.

Apparently the volume of veterans that received benefits under the GI Bill far exceeded expectations, and the vast majority chose vocational education, largely through proprietary schools. Because existing vocational schools could not handle the demand for courses, there was a significant increase in the number of new private trade schools over a short period of time. Of the 8,800 schools that were eventually approved under the original GI Bill through 1950, 5,600 were established after the law was passed.[93]

By the early 1950s, several studies had identified concerns over the profusion of proprietary schools, their course offerings, and the quality of education and training they provided. The reports criticized the "fly-by-night" nature of the schools, which offered courses in every possible field to take advantage of the ready availability of Federal funds.[94] Examples of abuses by the schools were falsifying of cost and attendance information, overcharging for materials, billing for students not enrolled, overcrowding programs, providing courses in fields with few employment prospects, and lengthening curriculum to keep veterans enrolled.[95]

Reported program abuses by proprietary schools by 1950 had led to GI Bill amendments, primarily under P.L. 81-610 (July 13, 1950), specifically to set new controls on student participation in vocational courses. They included a ban on benefits for avocational or recreational courses; authority for the Veterans' Administration (VA) to disapprove benefits to schools in existence less than 1 year; stricter criteria for approval of for-profit schools with fewer than 25 students or one-fourth of enrollees paying their own tuition; a prohibition against new course approval if the demand for the occupation for which the training was being provided was limited and existing training was adequate; and, minimum attendance requirements for those students pursuing trade or technical courses below the college level.

The Korean Conflict GI Bill and subsequent veterans' educational assistance programs retained many of the limitations on benefits for nondegree programs that resulted from the original GI Bill experiences. Therefore, as might be expected, when Congress considered national student aid programs in the mid-1960s it looked to the GI Bill for guidance in this area.

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[93]Starr, Paul. *The Discarded Army: Veterans After Vietnam*. New York, Charterhouse, 1973. p. 236.

[94]According to the McClure report (p. CRS-9) these studies included a Feb. 1950 joint report by the Veterans' Administration (VA) and the Bureau of the Budget, two reports issued in Jan. 1951 and Feb. 1952 by a House Select Committee to Investigate the Education and Training Program under the GI Bill (the Teague Committee, named for its chairman, Olin Teague of Texas), and a survey by the General Accounting Office (GAO) of the education and training operations of the VA in seven States.

[95]See, *GI Course Approvals: A Report Prepared by the National Academy of Public Administration Foundation*, p. 11-14.

## Proprietary School Eligibility for Student Aid Since 1965

The first general student aid program for proprietary school students was authorized by the National Vocational Student Loan Insurance Act of 1965. In 1968 this program was merged with the GSL program, which had been established for college students in 1965 under title IV, Part B of the HEA. By 1972, proprietary students had become eligible for all HEA title IV student aid programs existing today, including GSLs, SEOGs, CWS, NDSLs (now called Perkins Loans), and Basic Educational Opportunity Grants (BEOGs, later renamed Pell grants).

### *National Vocational Student Loan Insurance Act of 1965*

The National Vocational Student Loan Insurance Act of 1965,[96] P.L. 89-287, established a program of Federal loan guarantees and direct loans for students to attend postsecondary business, trade, technical, and other vocational schools. The benefits provided by this law were substantially similar to those available only to college and university students under the original GSL program established under the HEA of 1965.[97]

The Johnson Administration had included federally insured loans for postsecondary students, including those attending proprietary and other vocational schools, as part of the HEA legislation it originally proposed. Early in its consideration of the Administration's proposal, the House Education and Labor Committee chose to consider loans for students attending vocational schools under separate legislation rather than having them included under the HEA, and the Senate Committee on Labor and Public Welfare later came to the same conclusion. The legislative history provides no specific information on why the committees made this choice, but the hearing record indicates concerns about the experiences with the vocational sector under the GI Bill.[98]

In justifying loans for vocational students, the Education and Labor Committee report[99] noted that the major Federal education legislation that had been enacted by that time had been devoted to the elementary/secondary and college levels to the neglect of the vocational postsecondary school, or

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[96]P.L. 89-287, Oct. 22, 1965.

[97]P.L. 89-329, Nov. 8, 1965.

[98]See, for example, U.S. Congress. House. Committee on Education and Labor. Select Subcommittee on Education. *National Vocational Student Loan Insurance Act of 1965*. Hearings on H.R. 6468, 89th Cong., 1st Sess., Apr. 5, 6, and 7, 1965. Washington, GPO, 1965. p. 20.

[99]U.S. Congress. House. Committee on Education and Labor. *National Vocational Student Loan Insurance Act of 1965*. Report to Accompany H.R. 7743. House Report No. 308, 89th Cong., 1st Sess. Washington, GPO, 1965. p. 2.

business, vocational or trade school students.[100] The Committee pointed out that less than half of the Nation's youth went on to college, but aid for postsecondary education was generally confined only to this group. Because the Nation needed more than college-trained individuals in the work force, the committee argued, vocational education played an important role. The Committee also said,

> No one would dare dispute the utility and benefits--academic, social, and otherwise--which accrue to a college graduate. It is, however, unrealistic and folly to say that everyone should have a college education. There are many in our society, aside from those who cannot afford a college education, who simply do not want to go to college. . . .
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> There are also large numbers of actual and potential students who have left elementary or secondary school, but who now realize the importance of advancing or establishing skills through attendance at a vocational school. . . . They are in no way inferior or less intelligent or ambitious then the 4-year college student. They are aspirants and participants in higher education, but they have yet to receive serious attention from even the most 'higher education conscious' members in legislative quarters.[101]

The Committee also said that providing assistance to vocational students through loan guarantees was sound economics because a large number of students could be trained and educated for a minimum Federal expenditure.[102]

Bill sponsors pointed to two provisions of the legislation intended to prevent the abuses under the GI Bill from recurring: a requirement that a school be in existence for at least 2 years for program eligibility; and a requirement that the school be accredited by a nationally recognized accrediting body, a State agency recognized by the U.S. Commissioner of Education, or an advisory committee appointed by the Commissioner composed of persons qualified to evaluate schools providing a certain category of training.

The vocational student loan program passed the House unanimously,[103] and was sent to the Senate. The Senate Labor and Public Welfare

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[100]The Johnson Administration, which supported the committee bill, argued that while the Vocational Education Act had been enacted in 1963 to assist State educational agencies in building area vocational schools, all students would not have access to such schools and that the loan program would be a vital supplement to this Federal program.

[101]House Report No. 308, p. 2.

[102]Ibid., p. 7.

[103]*Congressional Record*, v. 111, June 21, 1965. p. 14123.

Committee, to which the bill was referred, decided to adopt the House position that the vocational and college loan programs should be separate, but determined that the terms and conditions of the vocational loan program reflect as closely as possible those being established for the college loan program under the HEA. The Senate Committee amended the House versions of the legislation to reflect this policy.

P.L. 89-287 was authorized through FY 1968 and was administered by the Office of Education's Bureau of Higher Education at the U.S. Department of Health, Education, and Welfare.[104]

***The Higher Education Amendments of 1968***

The Higher Education Amendments of 1968,[105] P.L. 90-575, merged the National Vocational Student Loan program with the GSL program established under Part B of the HEA. This law also established the eligibility of proprietary schools to participate in the NDSL program and the CWS program under certain circumstances.

The merger of the vocational loan and GSL programs, which originated in the House, was justified on grounds of efficiency. The House Committee report noted that the two parallel programs had resulted in duplicate efforts for all the parties involved in the programs, and that the merger would give vocational students readier access to loans.[106]

The House legislation also contained provisions extending the NDSL and CWS programs to proprietary school students. The Committee said that the existing exclusion of proprietary students from the NDSL and CWS programs was "discriminatory" and "in direct conflict with the objectives of the two programs as frequently applicants to [proprietary] schools desperately need

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[104]By FY 1968, ED estimated that 262,500 students were receiving loans under the program, and about 4,000 schools were accredited for program participation. In contrast, about 750,000 loans were expected to be supported under the original Part B GSL program for college students. The vocational student loan program was budgeted under OE's Division of Vocational and Technical Education, although the program was administered by the Bureau of Higher Education. See, U.S. Congress. House. Committee on Appropriations. Departments of Labor, Health, Education, and Welfare Appropriations for 1968. Hearings, 90th Cong., 1st Sess., Part 3. Washington, GPO, 1968. p. 308, 407 and 420.

[105]P.L. 90-575, Oct. 16, 1968.

[106]U.S. Congress. House. Committee on Education and Labor. *The Higher Education Amendments of 1968*. Report to Accompany H.R. 15067. House Report No. 1649, 90th Cong., 2d Sess., July 8, 1968. Washington, GPO, 1968. p. 23. According to the Committee, as of mid-1968, 14,400 lenders made loans for "high education purposes" and 9,579 for "vocational education purposes." A major issue for both programs was how to encourage lenders to participate in the programs and make loans available to students.

student assistance."[107] The Committee noted that the new eligibility standards for proprietary school participation were restrictive and represented a cautious approach to extending eligibility for the CWS and NDSL programs. Schools had to have been in existence at least 5 years to participate in these programs rather than 2 years for the GSL program, had to be accredited by a nationally recognized accrediting agency, and had to admit only high school graduates rather than also allowing non-high school graduates as under the GSL program.[108] For purposes of establishing eligibility for proprietary participation in the NDSL program, program appropriations had to exceed $190 million. Under the CWS program, proprietary students were precluded from being employed by the for-profit schools.

The Senate version of the HEA amendments retained the National Vocational Student Loan program with a simple extension through FY 1972. It did extend eligibility for the CWS and NDSL programs to some proprietary schools, but under different conditions from those in the House bill. For example, a proprietary school's eligibility for the NDSL program would have been based on conditions established by the Commissioner of Education to insure that there would be no increase in tuition or other fees charged students because of program participation.

Conferees meeting to resolve the differences between the House and Senate versions of the legislation generally adopted the House provisions, except that they reduced the 5-year requirement for CWS and NDSL participation to 2 years, and retained the Senate's requirement that the Commissioner of Education establish conditions to insure against tuition and fee increases resulting from the availability of NDSLs for students in proprietary schools.

P.L.90-595, therefore, enabled proprietary school students to participate in the GSL, CWS, and NDSL programs, but the eligibility standards were more restrictive for participation in the latter two programs. For GSLs, a school could admit non-high school graduates, had no restriction on course duration,[109] had to be in existence for 2 years, and had to be accredited either

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[107]House Report No. 1649, p. 28.

[108]For GSLs, the definition of eligible institution included one admitting as regular students ". . .persons who completed or left elementary or secondary school and who have the ability to benefit from the training offered by such institution."

[109]The new GSL program adopted the eligibility standards for vocational programs used under the National Vocational Student Loan Act. Regulations issued pursuant to that legislation defined an eligible program as one providing at least 300 clock hours of classroom or its equivalent or in the case of a correspondence program one requiring at least 6 months to complete. See, *Federal Register*, v. 31, Nov. 26, 1966. p. 14942.

by a nationally recognized accrediting body or by alternative accrediting organizations if no such body existed to accredit the school's program.[110]

For the CWS and NDSL programs,[111] the school had to offer at least a 6 month training program, had to be accredited by a nationally recognized accrediting organization without the exceptions provided under the GSL program, and could only admit high school graduates.[112] Also, for the NDSL program only, Federal capital contributions to proprietary schools were to be available only to the extent that program appropriations exceeded $190 million[113], and under conditions to insure the availability of such aid would not result in an increase of tuition and fees. Under the CWS program, proprietary students could not be employed by their schools.

***Education Amendments of 1972***

P.L. 92-318, the Education Amendments of 1972,[114] included major amendments to title IV of the HEA, which established the complete range of student aid programs available today (if the SLS/PLUS programs are considered components of the GSL program rather than separate aid). Also, this law enabled proprietary schools to participate in all of the title IV grant, loan, and work study programs but with different standards for participation in the GSL program.

To establish eligibility for proprietary school participation in all of the title IV programs other than Part B (GSLs), P.L. 92-318 amended the title IV provision defining "institution of higher education," which had established the basic eligibility of proprietary schools for the CWS and NDSL programs. While the standards for eligibility were unchanged, the new definition included a provision (similar to the previous condition under the NDSL program) requiring proprietary schools to have an agreement with the U.S. Commissioner of Education to insure that the aid available to students under title IV had not resulted nor would it result in an increase in tuition, fees, or other charges to students. This condition was later repealed by the Education Amendments of 1980, P.L. 96-374.

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[110]The applicable definition if that for a "vocational school" found then and today in section 435 of the HEA.

[111]"Proprietary school" was defined in section 461(b) of the HEA for the purposes of establishing eligibility for the CWS and NDSL programs at that time. Today the applicable section is 481(b).

[112]See section 151 of P.L. 90-575.

[113]NDSL appropriations were $193.4 million for FY 1969, $195.5 million for FY 1970, and $243.0 million for FY 1971.

[114]P.L. 92-318, June 23, 1972.

Both the House and Senate committees reported amendments had extended eligibility for proprietary school participation in the educational opportunity grant program, the only student aid program for which proprietary students had remained ineligible. The Senate version of the amendments also included provisions for a major new grant program, Basic Educational Opportunity Grants (BEOGs, later to become Pell grants), for which proprietary students would also be eligible. The Senate Committee report stated that full participation of proprietary schools in all student aid programs was ". . . in line with the policy of the Committee in favor of creating benefits for students based on their individual needs, without regard to the type of institutions at which a particular student is in attendance."[115]

The Senate Labor and Public Welfare had included the condition to control increases in student charges mentioned above. The Committee did not comment on the justification for the provision, but presumably it was an extension of the similar provision for the NDSL program to preclude price increases due to increased availability of student aid.

P.L. 92-318 provided the first authority for the U.S. Commissioner of Education to limit, suspend or terminate (LS&T) an institution from participation in the GSL program, and otherwise to require schools to submit certain information to ED on their fiscal condition. With regard to the authority, the House Education and Labor Committee said,

> There have been isolated unfortunate experiences with some proprietary schools that have failed, leaving students owing loans to banks under the guaranteed loan program. . . . It is expected that, with tighter supervision, it will be possible to minimize the possibility of student losses.[116]

The LS&T authority was later extended to apply to any and all title IV programs by the Education Amendments of 1980, P.L. 96-374. This law also eliminated the provision relating to increases in student charges.

In reporting the amendments extending the range of programs for which proprietary schools could receive aid, the Senate Labor and Public Welfare Committee noted concern over the Office of Education's activities regarding accreditation of proprietary schools:

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[115]U.S. Congress. Senate. Committee on Labor and Public Welfare. *Education Amendments of 1971.* Report on S. 659, Aug. 1, 1971. Senate Report No. 92-346, 92d Cong. 1st Sess. Washington, GPO, 1972. p. 51.

[116]U.S. Congress. House. Committee on Education and Labor. *Higher Education Act of 1971.* Report to Accompany H.R. 7248, Oct. 8, 1971. House Report No. 92-554, 92d Cong. 1st Sess. Washington, GPO, 1971. p. 23.

> It seems evident that the Office of Education has been remiss in its accrediting procedures. The Committee is concerned with the prospect that students attracted by sophisticated advertising and unfillable promises may enroll in schools which do not offer the quality of education which the schools claim is available. This is the case particularly with regard to certain technical occupations, where the curricula may be many years out of date, and the students are offered courses of study for which jobs are unavailable.[117]

***Provisions Affecting Proprietary Student Participation in Title IV Aid Programs After 1972***

After 1972, amendments to title IV in two general areas generally broadened the eligibility of proprietary school students to participate in title IV programs. Non-high school graduates, or "ability to benefit students" (ATB), became eligible for all aid programs after 1978. The proprietary sector enrolls a larger proportion of ATB students than other postsecondary educational institutions. In 1987, proprietary school students became eligible for Supplemental Loans for Students (SLS), an additional guaranteed loan program under Part B, which succeeded a similar program in which proprietary school student participation was limited.

Also, after 1986, students attending proprietary schools were authorized to have employment under the CWS program at their institutions with certain limitations.

***Ability to Benefit.*** As defined for the GSL program in 1968, a vocational school (included proprietary schools),

> . . .admits as regular students only persons who have completed or left elementary or secondary school and who have the ability to benefit from the training offered by the institution. . . .

This was the original and most liberal provision for non-high school graduates to participate in title IV programs, and has continued in force for the GSL program since that time.

The Education Amendments of 1976[118], amended the definition of "institution of higher education" which applied to the entire Higher Education Act to include *public or nonprofit private* institutions that

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[117]Senate Report No. 92-346, p. 51.

[118]P.L. 94-482, Oct. 12, 1976.

> . . .admit as regular students persons who are beyond the age of compulsory school attendance in the State in which the institution is located and *who have the ability to benefit* from the training offered by the institution. (Italics supplied)

The House committee report on the legislation justified this amendment, which notably did *not* include proprietary schools, on grounds that it would open HEA program participation to public institutions in States that had open admissions policies as part of the "important evolution towards serving the nontraditional student."[119] The legislative history provides no indication of why proprietary schools were excluded from the purview of the 1976 ATB amendment.

The Middle Income Student Assistance Act, [120] P.L. 95-566, subsequently added an ability to benefit provision to section 481(b) of title IV defining proprietary schools for purposes of the non-GSL student aid programs. Congressional sponsors of the amendment argued that the omission of proprietary schools from the 1976 ability to benefit amendment was an "oversight" and that there was no intention for separate treatment of these schools.[121]

The Education Amendment of 1980[122] made the "ability to benefit" language in section 481(b) enacted for proprietary schools in 1978 effective retroactively to July 1, 1972. The legislative history does not provide a particular justification for this provision. It does, however, indicate concern in Congress that regulations issued pursuant to the ATB provision were excessively onerous because of testing and documentation requirements, and that they might discourage the participation of nontraditional students in postsecondary programs.

In 1986, when it again reauthorized HEA programs, Congress did an "about face" regarding controls on the admission of non-high school graduates under the ATB provision by providing a statutory interpretation of the term in section 484(d) of the HEA. The Higher Education Amendments of 1986[123] required students to be admitted on the basis of "ability to benefit" and

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[119]U.S. Congress. House. Committee on Education and Labor. *Higher Education Amendments of 1976*. Report to Accompany H.R. 12851, May 4, 1976. House Report No. 94-1086, 94th Cong., 2d Sess. Washington, GPO, 1976. p. 22.

[120]P.L. 95-566, Nov. 1, 1978.

[121]U.S. Congress. House. Committee on Education and Labor. *Middle Income Student Assistance Act*. Report to Accompany H.R. 11274, Mar. 14, 1978. House Report No. 95-951, 95th Cong., 2d Sess. Washington, GPO, 1978. p. 17-18.

[122]P.L. 96-374, Oct. 3, 1980.

[123]P.L. 99-498, Oct. 17, 1986.

remain eligible for title IV assistance to receive a General Education Development (GED) certificate before completing the course of study or by the end of the first year, whichever is earlier; be counseled before admission and be enrolled in and complete a remedial program of up to a year; or be given a test developed by the industry, meeting the criteria of the appropriate accrediting bodies, measuring the student's aptitude to successfully complete the program for which the student is applying. If unable to pass such a test, the student had to be enrolled in a remedial program.

This ATB provision was originally included in the House committee-reported version of the 1986 amendments, and was added in an amendment to the Senate bill during floor consideration. The legislative history provided no justification for the provision, but it was undoubtedly influenced by a 1984 GAO report on proprietary school participation in the Pell Grant program.[124] This report found proprietary schools lax in developing and administering tests to determine a student's ability to benefit, which contributed to a 61 percent dropout rate among such students in schools GAO studied, and a waste of the Federal Pell grant dollar. GAO concluded that better criteria were needed to determine a student's ability to benefit, and recommended that the Secretary of Education explore the feasibility of developing such criteria. Lacking suitable criteria, GAO urged legislation to limit admission at schools to high school graduates or students with GED (high school equivalency) certificates.[125]

The conference report on the 1986 amendments provided guidance on how the ATB provision should be implemented. It noted that the nationally recognized test that would be used must meet the criteria of the appropriate accrediting bodies, but **not** be subject to their prior approval. It further commented that the remedial coursework only need provide the student with the basic skills necessary for the particular education or training program chosen by the student and that the institution was not obligated to provide a separate remedial education program if the institution's curriculum already would provide the student with the necessary basic skills.

***Supplemental Loans for Students.*** P.L. 99-498, the Higher Education Amendments of 1986, amended Part B of the HEA to establish the Supplemental Loans for Students (SLS) program to provide non-need-tested and generally unsubsidized guaranteed loans for independent undergraduate students. Proprietary schools are eligible to participate in this program under the institutional eligibility criteria provided for the GSL programs generally in section 435 of the HEA.

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[124]General Accounting Office, *Many Proprietary Schools Do Not Comply.*

[125]Ibid., p. 53.

Before the enactment of P.L. 99-498, a similar supplemental loan program existed called "Auxiliary Loans to Assist Students," or ALAS loans, which had been established under the Omnibus Reconciliation Act of 1981, P.L. 97-35. Clearly this program was aimed at extending a supplemental source of loans to graduate students; supplemental loans for parents of dependent undergraduates only had been established under the Education Amendments of 1980, P.L. 96-374.[126] While *undergraduate* independent students, including students at proprietary schools, technically were eligible for ALAS loans, their use of the program was limited by a provision of the law that restricted program borrowing by independent **undergraduate** students to $2,500 *minus* any amount the student received in regular GSL borrowing. The regular GSL annual maximum was $2,500 at that time. Since many financially needy students qualified for the maximum GSL (there was no need test for students with incomes less than $30,000) and the interest was subsidized, the typical needy independent **undergraduate**, therefore, was unlikely to borrow under the ALAS program if he or she was eligible for the regular GSL program.

When the SLS program was established by P.L. 99-498 the restriction on independent undergraduate borrowing was removed, and all eligible independent students, including proprietary school students, could borrow up to $4,000.

Because of concern over the marked increase in borrowing during the first year of the SLS program,[127] Congress enacted P.L. 100-369 in July 1988 to moderately curb the free access to SLS loans by independent students. According to data reported by GAO, the bulk of the increase in SLS borrowing was attributable to proprietary school students.[128] P.L. 100-369 required students to apply for Pell grants and Stafford (regular GSL) loans before applying for an SLS loan, making the SLS loan aid of last resort. It also required the multiple disbursement of SLS loans, which had previously been required for Stafford (regular GSL) loans only.

Amendments to the SLS program adopted in 1989 reconciliation legislation put further curbs on SLS borrowing that particularly affected proprietary students. The Student Loan Reconciliation Amendments of 1989, enacted in P.L. 101-239, prohibited undergraduate students at schools with "cohort" default rates of 30 percent or over from borrowing SLS loans during the period January 1, 1990 through September 30, 1991. A large proportion of such schools are proprietary. Other amendments that particularly affected

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[126]See, U.S. Congress. Conference Committees. *Omnibus Budget Reconciliation Act of 1981*. Report to Accompany H.R. 3982, July 29, 1981. House Report No. 97-208, Book 2, 97th Cong., 1st Sess. Washington, GPO, 1981. p. 741.

[127]See, U.S. Congress. House. Committee on Education and Labor. *Prevention of Abuses in the Supplemental Loans for Students Program*. House Report No. 100-669, 100th Cong., 2d Sess. Washington, GPO, 1988. p. 2.

[128]GAO, *Supplemental Student Loans: Who Borrows and Who Defaults*, p. 10.

proprietary school students limited the maximum loan availability in short term programs, required a 30-day delay in the disbursement of SLS loans to students lacking at least a year of successfully completed undergraduate study, and denied SLS loans to ATB students. For a further discussion of the legislation, see p. CRS-29.

***College Work Study***. The Higher Education Amendments of 1986 first authorized proprietary school students to be employed in CWS program-assisted jobs at their institutions. The jobs must be on campus, complement and reinforce their educational goals, and furnish student services, but the job may not involve solicitation of potential students.

Both the House and Senate bills leading to the 1986 amendments had provisions authorizing on-campus employment for proprietary school students, which had been previously barred. The intent of the change was to increase the "educational opportunities" available to the students.[129]

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[129]U.S. Congress. Senate. Committee on Labor and Human Resources. *Higher Education Amendments of 1986*. Senate Report No. 99-296, 99th Cong., 2d Sess. Washington, GPO, 1986. p. 33.

# APPENDIX B
# PROPRIETARY SCHOOL ELIGIBILITY FOR TITLE IV AID

Title IV of the HEA authorizes loans, grants, and work study aid for students attending proprietary postsecondary schools under five major programs. This appendix summarizes the types of assistance available to students, the requirements for proprietary schools to participate in these programs, and student eligibility requirements.

## TITLE IV AID PROGRAMS

In FY 1990, title IV programs will provide an estimated $18 billion in aid to postsecondary students. Federally-insured loans available under the GSL program, financed by private capital, will comprise the bulk of this assistance (about $11 billion). The next largest program ($4.8 billion), although largest in terms of **annual Federal costs**, is the Pell Grant program, under which ED provides Federal grants directly to eligible students. Other Federal grant and loan programs and the CWS program, which are administered by schools and referred to as "campus-based," supplement these two major sources of student aid.

### Guaranteed Student Loan Program

The GSL program provides three basic types of loans: Stafford loans, SLS, and PLUS loans. All of these loans, which are financed with private capital, are long-term (usually 10 years) and insured against borrower default, death, disability, or bankruptcy by the Federal Government through guaranty agencies at the State level. These guarantees, and interest benefits described below, are entitlements and, therefore, are not subject to the limitations of annual program appropriations. In FY 1990, the Federal appropriation supporting these entitlements is $3.9 billion.

Stafford loans are available only to needy students at a lower-than-market interest rate.[130] In addition to providing the guarantee for these loans, the Federal Government pays the borrower's interest on the loan while he or she is in school and during a "grace" period thereafter, and in periods of deferment. The Government also pays an interest subsidy to lenders to make the return on the loan more equivalent to the market rate.[131] Students may borrow up to $2,625 annually in Stafford loans during their first 2 years of undergraduate study, depending on their need, and any other assistance

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[130]The interest rate is currently 8 percent, rising to 10 percent at the beginning of the 5th year in repayment.

[131]This interest subsidy is called a "special allowance," and is the sum of the 91-day U.S. Treasury Bill average interest rate and 3.25 percent, minus the borrower's interest rate, and divided by four (for a quarterly payment).

available to help them meet postsecondary costs, and higher amounts for successive years of study.[132] During FY 1990, about 3.3 million students will borrow an estimated $8.8 billion in Stafford loans.

SLS and PLUS loans are available to students or their parents regardless of financial need, but at variable market interest rates and with no interest subsidy, under most circumstances.[133] SLS loans are generally available to students who are not dependent on parental support, and who have a high school diploma or equivalency certificate; PLUS loans are available to *parents* of dependent undergraduate students. In other respects, SLS and PLUS loans have similar characteristics. Borrowers must begin interest payments while in school (within 60 days after the loan is disbursed) unless, under an agreement with the lender, such payments are added to the loan principal (i.e., capitalized). Students and parents may borrow up to $4,000 annually under both programs, although SLS limits are lower for short-term (less than a year) programs through September 1991. Also, through September 1991, as a result of recent reconciliation legislation (P.L. 101-239), undergraduate students at some schools may not be eligible for SLS loans because the school has a GSL program default rate of 30 percent or over.

SLS loan volume is expected to be $1.4 billion in FY 1990, while PLUS volume will be about $827 million. About 545,000 students will borrow SLS loans and 258,000 parents will be PLUS borrowers.

### Pell Grants

Pell grants are available to financially needy undergraduate students for up to 5 years. The Federal Government is the sole source of funds for these grants, and because they are "grants" students are not obligated to repay the money or perform a service.

The amount of a Pell grant available to an individual student varies according to the student's need, which is established by a statutorily-based need test that considers the student's or his or her family's income, assets, and the cost of attendance at the school. The grant may not exceed 60 percent of the cost of attendance up to a maximum amount established for the particular academic year (for 1990-1991 this amount is $2,300). A student must qualify for at least $200 to receive a Pell grant.

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[132]The maximum increases to $4,000 per year for up to 3 additional years of undergraduate study, and $7,000 per year for graduate and professional students for up to 5 years of study. The aggregate loan limit for undergraduates is $17,250 and for graduate and professional students is $54,750.

[133]The rate changes annually and is based on the 52-week U.S. Treasury Bill (T-bill) average interest rate plus 3.25 percent. The student rate is "capped" at 12 percent. The special allowance (interest subsidy to lenders) applies to these loans, but because of the higher interest rate paid by the borrower, is rarely payable.

Eligibility for a Pell grant and the amount of the grant is affected by available Federal appropriations. The FY 1990 appropriation for Pell grants of $4.8 billion is expected to provide grants to 3.2 million students in the 1990-1991 academic year.

**Campus-Based Aid**

Three other title IV programs are sources of Federal aid for students beyond the GSL and Pell Grant programs: SEOGs, Perkins Loans, and CWS assistance. Because these programs are administered by participating institutions of higher education, they are referred to as the "campus-based" programs. Under each of the programs, Federal funds are distributed annually directly to institutions on the basis of a formula, and the institutions must provide matching funds, which vary by program. Funds are awarded at the discretion of the school to eligible students, who may be attending the institution on a less-than-half-time basis, based on their financial need.

SEOGs are grants (i.e., there is no repayment or service obligation) available to undergraduate students with "exceptional" financial need, with priority given to Pell grant recipients. A student may receive a maximum grant of $4,000 annually. In the academic year 1990-1991, 678,000 grants are expected to be supported with a $458.7 million appropriation for SEOGs.

Perkins loans are available from the school[134] to financially needy undergraduate and graduate students at a 5 percent interest rate. Like Stafford loans, they do not have to be repaid until the borrower leaves school (plus a 9-month grace period), and the repayment period is 10 years. Students may borrow a total of $4,500 during the first 2 years of an undergraduate program, up to $9,000 once a third-year status is achieved (including any Perkins loan amount borrowed the first 2 years), and up to $18,000 for graduate or professional study (including any amounts previously borrowed under the program). About 804,000 students will receive Perkins loans in the 1990-1991 academic year. The Federal appropriation for FY 1990 for capital contributions is $135.1 million and for cancellations is $21.7 million.

CWS assistance enables schools to provide jobs for financially needy undergraduate and graduate students, the earnings from which pay educational expenses. Pay for CWS jobs must be at least the current minimum wage, and the earnings cannot exceed the CWS award, which is based on the student's cost of attendance and need. Proprietary school students who are employed by their institutions must work on campus only, such work must, to the maximum extent possible, relate to the educational

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[134]Under the Perkins Loan program the school acts as the lender, using capital from a revolving fund developed from annual Federal capital contributions and loan repayments. These loans are *not* guaranteed against default by the Federal Government, but the Government pays for the cancellation of loans when the borrower is employed in certain public service occupations or if the borrower dies or becomes totally and permanently disabled.

program they are pursuing and must furnish student services but may not involve recruitment. In academic year 1990-1991, about 876,000 students will receive CWS awards. The FY 1990 appropriation for the CWS program is $601.8 million.

## INSTITUTIONAL ELIGIBILITY

Title IV of the HEA includes distinct eligibility requirements for proprietary school participation in the GSL program, and in the remaining grant loan and work study student aid programs.[135] The following section describes these standards, and briefly explains the process under which a school is certified as eligible for program participation.

### Eligibility Requirements

Most of the requirements for proprietary school participation in the GSL and remaining title IV student aid programs are effectively the same. They include that the school:

- be located in a State;[136]
- admits students with a high school diploma or equivalency certificate but may admit non-high school graduates as long as they have the ability to benefit from the course of study they will pursue at the school, as described in section 484(d) of the HEA;
- is legally authorized[137] to provide education or training at the postsecondary level in the State in which it is located;
- is accredited by a nationally recognized accrediting agency; and
- has been in existence for at least 2 years.

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[135]Section 435(a) of the HEA describes "eligible institution" for purposes of the Part B Stafford Loan program, which includes a "vocational school." The definition of "vocational school" in section 435(c) includes the standards for proprietary school participation in the Part B loan programs. Section 481(a) of the Act describes "institution of higher education" as used for the non-Part B title IV programs (Pell grants, SEOGs, the CWS program, Perkins loans), and includes a "proprietary institution of higher education." As defined in section 481(b), "proprietary institution of high education" includes standards for proprietary school participation in the non-Part B programs.

[136]One of the 50 States, American Samoa, the Commonwealth of Puerto Rico, the District of Columbia, Guam, the Trust Territory of the Pacific Islands, the Virgin Islands, and the Commonwealth of the Northern Mariana Islands. See 34 CFR 600.2.

[137]As defined by regulation, a charter, license, or other written document issued by the appropriate agency or official of the State in which the institution is physically located. See 34 CFR 600.2.

The most significant difference between the eligibility requirements for proprietary schools under the GSL program and other title IV student aid programs is in the standard for the length of courses. In statute, there is no minimum course length prescribed for a vocational school under the GSL program, but it has been interpreted in regulations as being 300 clock hours at schools using that method of measuring progress; eight semester or trimester hours or 12 quarter hours for schools using a credit hour system; or 12 hours of preparation per week over a 12-week period and completion of a minimum of 300 clock hours in no less than 6 months for a correspondence program.

For a proprietary school to participate in the Pell Grant, SEOG, Perkins Loan, and CWS programs, by statute its course of training must be at least 6 months long. This in interpreted in regulations as the equivalent of 600 clock hours, 16 semester or trimester hours or 24 quarter hours using the credit hour measure, or 600 hours if it is a correspondence course.

Another difference between the GSL program and other student aid program institutional eligibility requirements is that ATB students must be beyond the age of compulsory school attendance in the State for the non-Stafford Loan programs, but may be any age for the GSL program. P.L. 101-239 denied SLS loan eligibility to ATB students.

### Accreditation and Licensure[138]

As mentioned above, a prerequisite for an institution's eligibility for title IV programs is accreditation by a "nationally recognized" accrediting agency or association and licensure by the State in which the institution is located. Both of these requirements are expected to indicate that the institution's educational program has met some minimum standard of quality.

Traditionally, any direct Federal role in judging educational quality has been considered inappropriate, so the role that has been established for ED in this area is indirect--to approve the approvers. Accrediting agencies are industry-operated entities, which establish standards of educational quality for education and training programs in particular fields, and are responsible for assuring that the institutions they approve, or "accredit," meet those standards.

Under the HEA and, indeed, other laws providing education assistance such as the Veterans' Readjustment Assistance Act and the Public Health Service Act, the Secretary of Education is responsible for recognizing--effectively approving--accrediting agencies and associations as reliable authorities concerning educational quality. The Secretary's decision in this regard is based on the recommendation of the National Advisory Committee

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[138]For more detailed information on accreditation, licensure and certification see another paper in this series, *Proprietary Schools: The Regulatory Structure*.

on Accreditation and Institutional Eligibility (NAC). The Secretary periodically publishes a list of approved accrediting bodies in the *Federal Register*. The most recent complete list was published on October 2, 1985,[139] but has since been amended periodically.

The other indicator used under title IV to establish an educational program's legitimacy is State licensure. State agencies or boards establish minimum standards for institutions to operate as businesses within a State, largely for the sake of consumer protection, and grant licenses, charters or some other documentation indicating that the institution has met such standards and is authorized to conduct its business. Understandably, the standards for licensure and their enforcement vary widely among States.

### Certification for Program Participation

An institution must apply to ED to establish its eligibility for any or all of the title IV programs. Once it establishes that the institution meets the eligibility requirements, ED undertakes a process to certify the institution for program participation. Under this process, the Department reviews the school for any financial or administrative problems that might affect its capability to effectively participate in the student aid programs. Once so certified, schools may participate in the relevant title IV program.

## STUDENT ELIGIBILITY REQUIREMENTS

Title IV programs have certain common student eligibility requirements. A student must be enrolled or accepted for enrollment on at least a part-time basis[140] in an eligible program at an accredited institution and be making satisfactory academic progress.[141] The student must be a U.S. citizen or national, a permanent resident alien, or a foreigner in the U.S. for other than a temporary purpose with intent to become a permanent resident, such as a refugee. The student may not owe a refund on a title IV grant, be in default on a title IV loan or have borrowed in excess of loan limits. In addition, the student applying for title IV aid must be willing to sign a statement of educational purpose stating that aid funds will be used only for expenses

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[139] *Federal Register*, v. 50, Oct. 2, 1985. p. 40213-40217.

[140] For the GSL program, the student must be enrolled on at least a half-time basis; currently, for the Pell Grant program, a student may be enrolled on a less-than-half-time basis but this will revert to a minimum of half time for the 1990-1991 award year under FY 1990 appropriations legislation.

[141] The "satisfactory progress" requirement is used to determine the student's continuing eligibility for assistance after one academic year, and is not a consideration for students in short-term courses such as those offered by many proprietary schools since academic year is defined as at least 900 clock hours, 24 semester hours or 36 quarter hours. The institution determines "academic progress," but by statute and regulation, the student generally must have a C grade point average in order to continue to be eligible for assistance after the second academic year.

related to attending school, and a statement indicating registration with Selective Service. To receive a Pell grant, the student must certify that he or she will not use or sell illegal drugs during the period covered by the grant.

As previously mentioned, aid recipients for all but the SLS program may be non-high school graduates but must have the ability to benefit from the educational program provided by the institution, as indicated by passing an industry-approved test or by other means as set forth in section 484(d) of the law.

Most of the title IV aid programs require students to be financially needy as determined by one of two statutorily established systems of need analysis, one for the Pell Grant program and the other for the GSL and campus-based programs. Under these systems, the income and assets of the applicant (or in the case of a dependent student, the student's family and the student) are reviewed and an "expected family contribution" towards educational expenses is determined. This amount is subtracted from the student's total cost of education, using specific standards set forth in the law, to determine the "need" for aid. Thereafter, the aid award or combination of awards may not exceed the amount of "need" so determined.